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The LDC debt problem — at the midpoint?

Lasting resolution of the LDC debt problem now is nearing the halfway mark in important respects. During the past two years a number of major debtor countries have made significant progress toward resolving their debt problems. Impressive improvements in trade and current account balances have enabled a number of countries to earn much, if not all, of the foreign exchange needed to make interest payments on their debts, rather than rely on new loans. Moreover, in all but a few cases, economic growth has resumed after several years of recession, and declines in real per capita incomes are being brought to an end.

Furthermore, the demonstrable progress of the two largest debtors, Mexico and Brazil, has helped defuse the intense anxieties prevalent two years ago concerning international debts. In turn, most of the LDC borrowers in Asia have been able to retain fairly normal access to credit markets. Accordingly, of the $500 billion collectively owed by the major borrowers listed in the tables, two-thirds is owed either by countries that were untouched by the recent debt troubles or by countries whose economic performance has surpassed most expectations. The remaining third, however, is owed by countries such as Argentina that are still lagging in the implementation of adjustment programs or in restructuring their external finances.

Earlier this year when interest rates began to rise again, fears were expressed that higher interest costs would offset the trade gains being made by debtor countries through their adjustment efforts and economic recovery in industrial-country export markets. Some analysts questioned the viability of the basic strategy for eventual resolution of debt problems. These fears, however, have not been borne out. Not only have interest rates declined, but even more important, growth in industrial countries, especially the United States, has made it possible for debtor countries to expand exports and increase trade surpluses by more than enough to cover the increased debt-servicing costs. Research presented in this article reconfirms that industrial-country expansion is a more powerful influence than interest rates on the external payments prospects of major debtor countries.

Despite substanial progress, there is still a long way to go. None of the countries that have experienced debt-servicing problems has yet

Table 1

Current account balances

billions of dollars

	1981	*1983*	*1984*
Argentina	—4.7	—2.4	—2.0
Brazil	—11.7	—6.9	—2.3
Chile	—4.7	—1.1	—2.0
Colombia	—1.9	—2.7	—2.2
Ecuador	—1.0	—0.1	—0.2
Mexico	—12.5	5.5	3.9
Peru	—1.6	—0.9	—0.8
Venezuela	4.0	3.7	0.5
Subtotal	—34.3	—4.8	—5.0
Nigeria	—6.0	—4.8	—0.5
Philippines	—2.3	—3.2	—1.6
Indonesia	—0.6	—6.3	—3.5
Korea	—4.6	—1.6	—1.8
Malaysia	—2.4	—2.8	—2.2
Taiwan	0.5	4.5	6.4
Thailand	—2.6	—2.9	—2.0
Turkey	—2.3	—2.3	—1.6
Subtotal	—20.4	—19.4	—6.7
Total	—54.6	—24.2	—11.8

Table 2

*Improvement in trade and current accounts between 1981 and 1984**

billions of dollars

	Current account	*Trade in goods and noninterest services*	*Interest payments*
Argentina	2.7	4.9	—2.1
Brazil	9.5	10.9	—1.4
Chile	2.8	3.1	—0.3
Colombia	—0.3	—0.1	—0.2
Ecuador	0.8	0.9	—0.1
Mexico	16.4	20.2	—3.7
Peru	0.8	0.8	—0.0
Venezuela	—3.6	—1.9	—1.6
Subtotal	29.2	38.7	—9.5
Nigeria	5.5	6.3	—0.8
Philippines	0.7	1.8	—1.1
Indonesia	—2.9	—2.3	—0.6
Korea	2.8	3.2	—0.4
Malaysia	0.2	0.8	—0.6
Taiwan	5.9	5.8	0.1
Thailand	0.6	0.6	—0.0
Turkey	0.8	1.2	—0.5
Subtotal	13.6	17.5	—3.9
Total	42.8	56.2	—13.4

*Negative number indicates deterioration in current account and trade balances or increase in interest payments.

reached the stage at which it can roll over existing debts in normal market fashion and, beyond that, attract new money on a spontaneous basis from credit markets. Several further years will be needed for many debtor countries to achieve the necessary declines in present, very high, debt-to-export ratios. It also could take some countries until near the end of the decade to bring real per capita incomes back up to precrisis levels. To reach these goals, debtor countries will have to sustain economic adjustment, both external and internal, strengthen their private sectors, and rebuild investor confidence. Given that concerns for capital adequacy and risk concentration will limit the ability of banks to extend substantial new loans to LDCs for some years to come, it is important for these countries to find ways to tap other sources of funds, especially the huge amounts of overseas assets belonging to their own residents. Foreign lenders and investors are unlikely to make sizable new commitments of funds to these countries until residents display sufficient confidence to bring back some of their expatriated capital.

Sustained OECD growth to provide markets for debtor-country exports is key to the basic strategy for resolving debt problems. Thus, as the U.S. expansion slows to a more sustainable rate and import growth moderates, it is essential that the pace of economic activity accelerate in other industrial countries, especially in Europe, where recovery has been anemic, as well as in Japan, where it has been sluggish by comparison with the United States. Similarly, the eventual narrowing of the large U.S. trade deficit must occur mainly through lower trade surpluses in Europe and Japan, not at the expense of LDC export performance if progress in resolving debt problems is to be maintained.

Areas of improvement

A number of the major debtor countries have made substantial progress in external payments adjustment. The aggregate current account deficit of sixteen developing countries, which together account for about 60% of total LDC external debt and nearly 80% of debt to banks, is projected to narrow to about $12 billion this year from approximately $24 billion in 1983 and nearly $55 billion in 1981 (see Table 1). The greatest improvements have been registered by the two largest debtor countries, Brazil and Mexico. Underlying this remarkable current account performance is an even larger gain in merchandise and noninterest services trade (see Table 2). Between 1981 and 1984, the sixteen major debtors have boosted their combined trade surplus by more than $56 billion.

At first, these trade balance gains were achieved largely by cutting imports. As shown in Table 3, imports were nearly halved between 1981 and 1983 in a number of countries, and reduced by two-thirds in Mexico. Countries resorted to various combinations of restrictive fiscal, monetary, and wage policies, exchange rate depreciation, and quantitative controls to bring about these large import reductions. Most major borrowers experiencing debt-servicing difficulties undertook this retrenchment in the context of adjustment programs monitored and supported by the IMF.

Import cutbacks were accompanied by declines in economic activity, some very sharp. However, not all of the drop in imports has been the result of reductions in domestic demand and quantitative restrictions. Import substitution has also played a significant role in several countries. Brazil's ongoing substitution efforts in energy, chemicals, metals, and other industrial materials have done much to contain imports. For exam-

Table 3

Merchandise imports

percent changes
based on balance of payments data in dollars

	1981 to 1983	1983 to 1984
Argentina	—51.1	—5.3
Brazil	—30.2	—9.3
Chile	—56.4	12.8
Colombia	—0.1	—9.6
Ecuador	—40.4	13.6
Mexico	—67.7	36.0
Peru	—29.3	—7.0
Venezuela	—44.1	32.8
Subtotal	—45.6	7.1
Nigeria	—35.8	—30.3
Philippines	—4.5	—22.2
Indonesia	7.2	—6.4
Korea	2.5	15.2
Malaysia	13.8	6.7
Taiwan	—7.3	20.6
Thailand	2.6	0.4
Turkey	3.0	6.5
Subtotal	—4.6	2.1
Total	—22.4	3.6

Table 4

Merchandise exports

percent changes
based on balance of payments data in dollars

	1981 to 1983	1983 to 1984
Argentina	—14.3	11.0
Brazil	—6.0	21.0
Chile	0.4	—1.3
Colombia	—6.7	8.3
Ecuador	—7.0	7.8
Mexico	10.2	10.3
Peru	—7.2	2.8
Venezuela	—26.6	5.6
Subtotal	—7.9	11.5
Nigeria	—41.8	6.6
Philippines	—13.2	8.7
Indonesia	—20.0	10.2
Korea	12.3	16.4
Malaysia	20.5	14.4
Taiwan	11.7	23.9
Thailand	—8.6	14.1
Turkey	21.8	25.0
Subtotal	—6.5	15.3
Total	—6.5	13.7

ple, its net oil imports are likely to fall below 450,000 barrels per day (bpd) this year versus more than 770,000 bpd in 1981. Together with lower world oil prices, this has slashed Brazil's net oil import bill by more than $5 billion. In Mexico, too, there has been considerable import substitution, especially for nondurable consumer goods, in response to changes in relative prices.

Although imports have continued to fall this year in several countries, they have begun rising in others. The major source of continuing trade balance improvement now is export expansion, helped greatly by strong U.S. demand. Virtually all of the major debtor countries will register export gains in 1984, many at double-digit rates (see Table 4). Brazil's exports rose 21% in the first eight months of this year, led by a 40% gain in manufactures. Mexico's overall exports are running 10% ahead of last year's level, with nonoil exports up by 35% during the first half of this year. Even countries adversely affected by weak prices for commodities, especially metals, have managed to boost overall export earnings by stepping up the volume of shipments. Exchange rate depreciation and weak domestic demand have encouraged manufacturers to seek out export markets.

As a result of increases in surpluses on merchandise and noninterest services trade, a number of countries that have experienced debt-servicing difficulties now are earning a large portion of their interest payments. Indeed, the trade surpluses of Mexico and Venezuela may be sufficient to cover all their interest obligations. Brazil's interest payments coverage should exceed 80%, and Nigeria's could reach 70% in the absence of further oil price weakness (see Table 5).

Besides the continuing improvement in their trade and current account performance this year, all but two of the troubled debtor countries have now resumed economic growth (see Table 6). Although growth in Latin America still is modest — in most countries within the range of 1% to 3% — the upturn is encouraging evidence of the benefits that can be won by improved demand management and resource allocation. Next year should see even better economic growth, averaging about 3½% in Latin America, with Brazil achieving perhaps 5%. For many countries this will provide the first, albeit marginal, increase in real per capita GDP since 1980 or 1981.

Yet another area of improvement is reduced capital outflows. During the late 1970s and early 1980s, capital flight was a major factor in the rapid buildup of external debt in several countries — notably Argentina, Mexico, the Philippines, and Venezuela. Capital outflows now have diminished considerably, especially from countries that have implemented credible adjustment programs, including realistic interest and exchange rate policies. The tightening of exchange controls also has had a dampening influence, although capital flight in the form of underinvoicing of exports and overinvoicing of imports and through unofficial foreign exchange markets continues in a few major debtor countries. However, there are indications that residents of some countries, faced with the inability to purchase foreign exchange from their respective central banks, have drawn on their assets accumulated abroad to pay for essential imports and to service their external debt.

The combination of improved current account performance and reduced capital outflows has enabled several major debtor countries to rebuild their foreign exchange reserves. Mexico's gross foreign exchange reserves now exceed $7 billion, or the equivalent of more than

Table 5

Interest payments coverage

*percent of interest payments on external debt covered by surplus on trade in goods and noninterest services**

	1982	1983	1984
Argentina	52	55	67
Brazil	—30	33	81
Chile	—0	41	13
Colombia	—153	—188	—89
Ecuador	—47	85	73
Mexico	57	156	132
Peru	—58	5	25
Venezuela	—17	208	110
Subtotal	5	86	87
Nigeria	—545	—266	73
Philippines	—76	—58	36
Indonesia	—185	—244	—73
Korea	30	52	55
Malaysia	—401	—233	—102
Taiwan	274	540	645
Thailand	23	—133	—70
Turkey	21	—60	5
Subtotal	—66	—49	56
Total	—14	48	79

*Negative number indicates deficit on trade in goods and noninterest services.

Table 6

Real GDP growth

percent per annum

	1982-83	1984	1985
Argentina	—1.3	3.0	2.0
Brazil	—1.1	2.5	5.0
Chile	—7.8	5.5	1.0
Colombia	0.9	2.0	1.0
Ecuador	—0.8	1.0	3.0
Mexico	—2.8	1.5	4.2
Peru	—5.8	2.0	3.0
Venezuela	—2.1	1.0	3.0
Average	—1.9	2.2	3.7
Nigeria	—3.3	—2.0	0.0
Philippines	2.0	—5.0	0.0
Indonesia	3.6	5.0	4.0
Korea	7.6	8.0	7.5
Malaysia	5.7	6.5	6.0
Taiwan	5.5	9.5	6.0
Thailand	3.9	4.5	5.0
Turkey	3.9	4.5	5.0
Average	3.6	4.2	4.2

eight months' worth of imports, up from $3.9 billion at the end of 1983 and only about $800 million at the end of 1982. Brazil's gross foreign exchange reserves also exceed $7 billion (more than six months' imports), up from less than $4.4 billion at the end of 1983 and only $3 billion in early 1983. Venezuela has added over $2 billion to its already sizable official reserve assets since the end of 1982, including more than $1 billion since the beginning of this year.

At the same time, debt growth has slowed to a sustainable pace. The total external debt of the seven major Latin American countries increased by an estimated $16 billion, or 5.3% in 1983, and is projected to rise by scarcely more in 1984 (see Table 7). This relatively slow growth of debt together with the pickup in exports this year is bringing about a downturn in debt-to-export ratios for the four largest Latin borrowers, with further reductions in store next year (see Table 8). Encouraging as these initial declines are, returning to precrisis levels will take many years of good export performance and limited debt growth.

Commercial banks, by slowing the growth of their loans to LDCs and by building up their capital and reserves, have succeeded in reducing their loan-to-capital ratios from the peak levels of 1982. Banks in the BIS-reporting area increased their outstanding claims on all LDCs by nearly $26 billion, or 5.7% at an annual rate ($29½ billion, or a 7.9% rate at constant exchange rates), between December 1982 and March 1984. Their claims on Latin American countries rose by $9 billion, or 3.4% at an annual rate, over the same period, mostly for Brazil and Mexico. For U.S. banks the annual rates of increase were only 2.2% for all LDCs and 4.1% for Latin America between December 1982 and June 1984. At the same time, banks have increased their capital and added significantly to their loan loss reserves. For example, the nine largest U.S. banks boosted their primary capital, which includes loan loss reserves, by 25% in the past two years. Thus, banks have been able to reduce their loans to heavily indebted LDCs relative to their capital. As shown in Chart 1, the ratios of claims on LDCs to primary capital at U.S. money center banks have fallen considerably since 1982, bringing them almost halfway back to the levels prevailing before the large run-up in loans in the aftermath of the second oil price shock.

Banks have also successfully rescheduled some of their existing credits to countries that have implemented adjustment programs. Until recently, debts rescheduled by banks largely covered 1983 and 1984 maturities. However, debt restructuring took new directions in a recent agreement with Mexico, which provides for restructuring $48.7 billion of bank loans, representing most of the public sector's obligations maturing over the next six years. These maturities will be extended for up to 14 years on more favorable terms to the borrower — a spread over LIBOR or cost of funds that averages about 1⅛%, with no front-end fees or commissions — in recognition of the progress made by Mexico in its economic adjustment. The agreement also gives non-U.S. banks an option to switch up to half of their dollar-denominated loans being rescheduled to their home currencies. With interest rates on several of these currencies lower than for dollars, switching could reduce Mexico's interest costs significantly.

The multiyear feature represents an effort to put Mexico's financing arrangements on a longer-term basis and to move away from the year-to-year approach that tended to engender a sense of short-term crisis

Table 7

Gross external debt

billions of dollars, at end of year

	1982	*1983*	*1984*
Argentina	41.7	43.4	45.0
Brazil	85.3	93.6	102.0
Chile	18.0	18.6	20.5
Colombia	10.6	11.2	11.7
Ecuador	6.3	6.9	7.1
Mexico	87.1	90.6	94.9
Peru	11.6	12.8	14.0
Venezuela	35.6	34.9	35.0
Subtotal	296.2	312.0	330.2
Nigeria	13.8	18.2	19.0
Philippines	24.5	26.5	26.5
Indonesia	24.8	29.2	32.0
Korea	37.3	40.1	44.0
Malaysia	11.5	14.8	17.0
Taiwan	9.7	10.0	10.3
Thailand	11.7	12.6	13.5
Turkey	22.3	23.9	25.3
Subtotal	155.6	175.3	187.6
Total	451.8	487.3	517.8

Table 8

Debt-to-export ratios

average of gross external debt at beginning and end of year as percent of exports of goods and services

	1982	*1983*	*1984*
Argentina	385	435	405
Brazil	339	366	331
Chile	333	375	394
Colombia	193	247	259
Ecuador	235	246	241
Mexico	288	317	293
Peru	256	320	338
Venezuela	168	203	192
Subtotal	297	327	310
Nigeria	75	146	160
Philippines	277	308	332
Indonesia	106	136	139
Korea	121	125	120
Malaysia	68	80	83
Taiwan	37	34	29
Thailand	116	129	125
Turkey	235	267	243
Subtotal	119	131	124
Total	196	213	200

management. Relieving the country of large annual refinancings for several years may open the possibility for Mexico to approach private credit markets on a more normal basis for modest amounts of new money over the next few years. Mexico, for its part, has agreed to IMF monitoring of its economic performance under enhanced Article IV consultation procedures, and will provide the banks with the resulting Fund reports. An agreement on multiyear rescheduling has also been reached in principle with Venezuela, and Brazil is expected to begin talks on a multiyear arrangement soon.

The agreement on enhanced Article IV consultations between the IMF and Mexico and a similar agreement by Venezuela mark an important, positive evolution in the Fund's role in dealing with debt problems. These arrangements promise significant benefits for all concerned. For the IMF, they provide a basis for continued, relatively close monitoring of economic performance and evaluation of policies and prospects in countries even after an IMF standby or extended facility program has expired, as it will in Mexico at the end of 1985, or where the country has had no IMF program, as in the case of Venezuela. Thus, even when the Fund is not providing conditional credit, insightful reporting could affect the attitudes of private lenders and encourage borrowers to continue with policies that will rebuild their creditworthiness.

Countries with lagging performance

Notwithstanding the substantial progress that has been made in resolving the payments problems of some developing countries, there are others whose external and internal adjustment is less impressive.

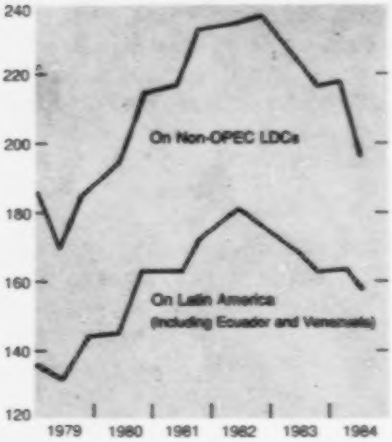
For example, Argentina has been running trade surpluses in recent years, but only because of sharp cuts in imports; export earnings this year will be lower than in 1981. Its current account remains in deficit by around $2 billion, and is unlikely to be reduced in 1985. The debt-to-export ratio remains exceedingly high, and the country's ability to earn the foreign exchange necessary to service that debt, as measured by interest payments coverage, has improved only modestly (see Table 5). Fiscal, monetary, and wage policies have led to hyperinflation and discouraged investment in export-oriented and other productive activities. The country has recently agreed in principle with the IMF on an economic program for the coming fifteen months. The program will receive IMF Board approval once corrective policies are in place, provided also that banks and official creditors agree on a financing package to bring interest and trade payments up to date as well as to cover next year's current account deficit.

The Philippines also has made insufficient progress in adjustment, with an agreement on economic policies and targets only recently concluded with the IMF. As in the case of Argentina, Fund support hinges on appropriate fiscal, monetary, and exchange rate measures and the lining up of new financing needed from banks and other creditors.

Nigeria's economic difficulties are largely due to falling world oil prices and sharp cuts in oil export volume. The country's oil revenues, 95% of total exports, dropped from $25 billion in 1980 to just over $10 billion this year. The government's response was much delayed. Deep cuts in imports, however, have enabled the country to continue servicing its bank and long-term government debt, although trade arrears now amount to $5 billion or more. The country needs to move away

Chart 1

Claims of 9 largest U.S. banks
as percent of primary capital



from excessive reliance on exchange controls and restrictions and adopt a comprehensive economic program to shift relative prices, reallocate resources, and achieve a better balance between aggregate supply and demand.

Colombia has pursued expansionary domestic policies at a time of reduced export earnings. The resulting large current account deficit has now seriously eroded the country's once plentiful foreign exchange reserves. Unless the authorities implement a comprehensive adjustment program and secure the backing of the IMF, debt-servicing difficulties will be hard to avoid. With the right policies the country's financial prospects would brighten considerably, especially beyond 1986 when new developments of oil and coal come on stream. Colombia may be able not only to achieve oil self-sufficiency, but also to become a net oil exporter once again.

Peru's adjustment efforts have faltered because, for several years running, the public-sector deficit has far exceeded targets pledged to the IMF. The disarray in government finances is helping to maintain inflation above 100%. Access to IMF financing has been interrupted, delaying disbursement of new money from banks and the rescheduling of 1984-85 maturities. Recently, interest arrears have begun to accumulate. Resolute commitment to narrow the fiscal deficit will be difficult to forge during the run-up to the general elections set for early next year.

In some cases adjustment efforts to date have not yielded the hoped-for improvement in the balance of payments because of adverse external developments. Chile, for example, implemented restrictive fiscal, wage, and monetary policies in compliance with its IMF program. Its current account deficit, which was cut in 1982-83, has been widening this year, partly because of weak copper prices. The country has had to adopt further measures, including a September devaluation, to promote nontraditional exports and contain import growth. These actions, combined with some recovery in copper prices, will help to minimize the new funds needed from commercial banks.

The recent weakness in oil prices creates new dangers for those major debtors that are oil exporters. Their dependence on oil revenues typically is very high — more than 50% of total foreign exchange earnings in all cases and over 90% in most. Nevertheless, a modest and coordinated reduction in world oil prices could be endured by most of these countries — especially those already showing strong adjustment. Furthermore, lower oil prices would help sustain economic growth in OECD countries and would tend to reduce interest rates, offsetting some of the adverse impact on oil-exporting debtors. However, a much larger decline would destabilize some oil exporters and set back balance of payments improvements in countries such as Mexico and Venezuela.

Outlook under different global assumptions

There remain considerable differences of opinion among analysts about the impact of changes in the external economic environment on debtor nations. Some believe that the effect of industrial-country growth on the balance of payments of developing countries far outweighs the effect of interest rates, while others argue that the effects are about equal. It has also been suggested that depreciation of the dollar would ease the debt problem significantly.

The diversity of opinion has much to do with differing judgments about such key economic relationships as

Table 9

Base-case assumptions

percent changes unless otherwise noted

	1984	1985	1986	Annual averages 1986-1990
Real GDP growth				
Brazil	2.5	5.0	5.0	5.0
Chile	5.5	1.0	3.0	4.5
Mexico	1.5	4.2	4.2	5.4
OECD real GNP growth	4.7	3.3	1.5	2.5
6-month Eurodollar LIBOR, % p.a.	11.65	12.0	8.5	9.0
Dollar effective exchange rate	6.0	—3.0	—4.0	0.0
OECD manufactures prices				
Local currency	4.0	6.0	6.0	5.5
Dollar terms	—2.0	8.0	8.5	5.5
Oil prices (OPEC average, $/barrel)	28.5	28.0	26.0	1.4%*
Non-oil commodity prices	0.8	9.0	4.0	0.0%*

*Percent changes in real terms.

the link between OECD growth and LDC export volumes and prices, and that between LDC imports and domestic growth. Many studies have relied on highly aggregated data on OECD import volumes and developing-country exports to quantify those relationships. Research at this bank takes a disaggregated approach, distinguishing individual countries' trade in oil, raw materials, manufactures, and services. Particular attention is given to the relationship between output, investment, and imports. Furthermore, business-cycle effects on trade are distinguished from long-term trends.

Tables 9 and 10 present the major assumptions and results for three Latin American debtors: Brazil, Chile, and Mexico, providing examples of an oil importer whose exports include a significant share of manufactures, of an oil importer dependent on commodity exports, and of an oil exporter. The base-case results assume that OECD recovery continues at a moderate pace; that world inflation stays low; that interest rates and the dollar fall; and that real oil prices decline through 1986.

The results indicate that Brazil's exports of goods and noninterest services may grow 9.2% per annum on average for the rest of the decade, together with a 13% growth rate of imports of goods and noninterest services. Brazil's current account deficit, which has been cut to about $2 billion this year, could remain as modest in the years ahead. By 1990, total debt and debt owed to commercial banks would be no higher than today, on the assumption that Brazil continues to attract foreign direct investment. The upshot would be a sharp improvement in the debt-to-export ratio bringing it to little over 200% by 1990.

Mexico's situation also appears favorable. Its non-oil exports would grow by almost 12% per year, helping to offset the relatively sluggish performance of oil exports. Mexico would return to small current account deficits from 1986, but total debt would grow only at the modest rate of 3.4% per year during the rest of the 1980s. The debt-to-export ratio would be steady at around 290% for the next couple of years, while the rise in non-oil exports barely offsets the small decline in oil revenues. The ratio would later fall below 225% by 1990, assuming oil prices stabilize in real terms.

Chile's situation would be less favorable. Although export revenues could rise 12% per annum over the next several years, somewhat outpacing import costs, the current account deficit would run between $1 and $1.5 billion each year. Debt would grow at close to 6% per year and the debt-to-export ratio, 394% at present, would fall steadily, but only to a still-high 282% in 1990.

Besides the base-case results, Table 10 summarizes the sensitivity of the balance of payments of these debtors to independent changes in several external conditions. It is assumed that debtor countries maintain their domestic growth as in the

Table 10

*Simulation results**

	Current account balance ($ billions)					External debt (average outstanding in year as % of exports)				Debt (year-end % change, annualized)	Interest payments (% of exports)			
	1982	1983	1984	1986	1990	1983	1984	1986	1990	1985-90	1983	1984	1986	1990
Brazil														
Base case	—16.3	—6.9	—2.3	—1.9	—1.2	366	331	314	203	0.0	42	40	33	21
Lower growth				—3.5	—8.8			332	269	3.3			35	28
Higher LIBOR				—2.9	—2.6			316	214	1.1			36	25
Lower oil prices				—1.1	0.8			310	190	—1.3			33	20
Lower dollar				—2.3	—2.8			301	202	0.9			32	21
Chile														
Base case	—2.3	—1.1	—2.0	—1.0	—1.4	375	394	348	282	5.6	37	45	30	26
Lower growth				—1.2	—2.8			366	350	7.7			32	32
Higher LIBOR				—1.2	—1.8			351	295	6.6			34	30
Lower oil prices				—0.9	—1.3			347	277	5.3			30	25
Lower dollar				—1.0	—1.5			327	269	6.1			28	25
Mexico														
Base case	—4.9	5.5	3.9	—0.6	—1.2	317	293	287	224	3.4	35	37	30	23
Lower growth				—1.2	—4.1			294	248	4.7			31	25
Higher LIBOR				—1.3	—2.6			288	234	4.4			33	26
Lower oil prices				—2.6	—5.1			311	264	5.7			33	27
Lower dollar				—1.3	—2.4			285	228	4.2			30	23

*Base-case assumptions are summarized in Table 9. Deviations from base case are: lower growth, OECD growth one percentage point lower each year; higher LIBOR, one percentage point higher each year; lower oil prices, 10% lower each year; lower dollar, 5% depreciation against other industrial-country currencies in both 1985 and 1986.

base case, despite the changes in the global environment. The simulated changes, all in relation to the base case, are: OECD growth, one percentage point lower each year; LIBOR, one percentage point higher each year; oil prices, 10% lower; and dollar depreciation, an additional 5% against other industrial-country currencies in both 1985 and 1986.

The greatest sensitivity is to OECD growth, which principally affects export volumes and the terms of trade. A 1% lower growth rate, beginning in 1985, would worsen the current account balance of Brazil by $1.6 billion in 1986 (5% of exports) and by $7.6 billion (17% of exports) by 1990, relative to the base case. The debt-to-export ratio would fall only to 269% by 1990. Thus, about half of the improvement projected in the base case would be undone. Yet even under this scenario Brazil's debt would grow just 3.3% per year. Mexico's current account would be less affected, and its debt still would grow at the relatively modest rate of 4.7% — assuming that oil prices were not depressed by the lower OECD growth. Finally, Chile would be hard hit if Western growth fell. Even if Chile kept copper production up, its current account deficit would increase by $1.4 billion (17% of exports) in 1990 relative to the base case. The country's debt growth would accelerate to nearly 8% per annum and the debt-to-export ratio would fall only to 350%.

An interest rate level one percentage point higher than assumed in the base case from 1985 onward would have a sharply negative and immediate impact on current account performance of the debtor countries. Over the longer term, however, such a rise in interest rates does much less damage than a one percentage point drop in the OECD growth rate. Mexico shows the least favorable "trade-off" between OECD growth and interest rates, largely because of the low responsiveness of oil exports to economic growth. Even so, the effects of higher interest rates on Mexico's current account are eclipsed by those of reduced economic growth after two years or so. For Brazil, the effects of OECD growth appear more important than interest rates even in the short term. Chile is an intermediate case in the trade-off spectrum, but is particularly vulnerable to higher interest rates: an extra percentage point on rates would leave its debt-to-export ratio barely below 300% by 1990.

If oil prices were 10% lower than in the base case, Mexico's current account deficit would increase by $2 billion in 1986 and by almost $4 billion in 1990. The debt-to-export ratio would decline only from 291% in 1984 to 264% in 1990. Debt would grow at 5.7% per year. In contrast, oil importers would benefit from lower oil prices. For Chile the relief would be modest. Brazil, however, would be a major beneficiary: the small current account deficits projected in the base case would be transformed into surpluses of around $800 million per annum, cutting the debt-to-export ratio to around 190% by 1990.

Finally, the effects of an extra 10% effective depreciation of the dollar differ from one country to another. Assuming oil prices hold unchanged, overall export prices in dollar terms would be boosted, with the effect strongest in Chile and weakest in Mexico. Noninterest service earnings would also benefit. However, import prices would climb, with Brazil's prices responding most. The overall effects on Brazil and Mexico would be minimal. Current account deficits in Mexico would increase relative to the base case, but the debt-to-export ratio would stay virtually unchanged, and debt would grow only 4.2% per year. Brazil's current account deficit would also increase somewhat relative to the base case, although the debt-to-export ratio would be little changed. Chile, by contrast, does seem to be helped, with its debt-to-export ratio falling just below 270%. Thus, while most observers have focused on the favorable impact of dollar depreciation on LDC exports, the potential relief of debt problems from this source looks modest once the implications for imports are taken into account. Moreover, any benefit of dollar depreciation to the debtor countries would be further reduced if allowance is made for translation effects upon interest payments and the stock of debt payable in nondollar currencies. Most of all, if dollar depreciation were accompanied by abrupt narrowing of the U.S. trade deficit, many developing countries could suffer severe erosion of their exports.

Altogether, these results strongly point to industrial-country growth as the most important external economic force affecting the developing world. Interest rates are less critical. Oil prices are significant for individual countries, but the benefits for some LDCs are offset by losses for the others. And, in general, it is doubtful that sharp dollar depreciation would substantially improve the prospects of debtor countries.

The long haul

The past two years have demonstrated the essential correctness of the strategy that has been followed in tackling LDC debt problems. In a context of renewed economic growth in industrial countries and moderating interest rates, those borrowing countries that have adopted export-oriented adjustment policies are reaping substantial benefits in terms of restored liquidity and eco-

Table 11

Industrial-country imports from LDCs

changes in annualized value of imports 1984 year-to-date versus second-half 1982

	Imports from non-OPEC LDCs	
	$ billions	*%*
*United States**	26.68	36.2
*Canada***	2.01	48.4
*Japan****	5.25	15.3
*France*****	0.56	5.0
*Germany*****	1.89	12.4
*Italy****	0.16	1.6
*United Kingdom***	1.94	17.9
Total	38.49	24.1

	Imports from Latin America	
	$ billions	*%*
*United States**	9.74	27.8
*Canada***	0.14	4.5
*Japan****	1.07	17.5
*France*****	0.15	4.7
*Germany*****	0.95	19.6
*Italy****	—0.60	—16.0
*United Kingdom***	0.17	9.5
Total	11.62	20.1

*Jan-Sep.
**Jan-Jul.
***Jan-Jun.
****Jan-Aug.

nomic expansion.

Nonetheless, real per capita incomes in virtually all developing countries that encountered debt problems still remain well below their precrisis levels. However, provided they adhere firmly to the longer-term objectives of their adjustment programs, Brazil, Mexico, and Venezuela can look forward to healthy economic growth in the years ahead that should allow real per capita incomes to recover fully within five years. In contrast, countries that have been tardy in implementing positive adjustment programs — among them, Argentina, Peru, the Philippines, and Nigeria — may be unable to restore precrisis income levels in this decade unless major policy improvements are quickly put in place.

One reason that adjustment in some countries has been less than decisive is the perception that renewed economic progress cannot be made while debtors are required to make net financial transfers to their creditors — that is, to pay more in interest than debtors receive through net capital inflows. Such transfers to creditors are practically unavoidable in the process of working down existing high debt burdens. Thus, if present debt-to-export ratios, which are 300% or more for many major borrowers, are to be brought down to 200% by the end of this decade, while their exports grow by 10%-12% per annum, gross debt levels can rise no more than 3% to 5% each year. This pace of debt accumulation and net capital inflow plainly falls far short of what a debtor country would need in order to cover interest payments.

The financial transfer issue comes down to how the transfers are accomplished. If exports cannot be increased, the trade surpluses required to cover the financial transfers can only be achieved by a compression of imports that will most likely penalize domestic economic growth. Naturally, that is not an appealing option for the debtor countries, especially to those lacking high export orientation. For example, if Brazil is to transfer the equivalent of 1% of its GNP to creditors without the help of increased exports, its imports of goods have to be scaled back by almost 15%. The corresponding transfer burden for Korea, by contrast, would be only 3% of imports, because the foreign-trade sector occupies a far larger share of total economic activity. If imports and economic growth are similarly related in the two countries, the transfer penalty on growth for Brazil appears almost five times larger than for Korea.

If export earnings continue to rise in the years ahead, however, there need be no inconsistency between transfer obligations and economic growth in the debtor countries. Thanks mainly to the world economic upswing and more supportive policies in Latin America, even some of the most heavily debt-burdened countries are beginning to experience export-led economic recovery while effecting net financial transfers.

Strong LDC export performance depends not only on industrial-country demand but also on the supply capabilities of the debtor countries. The enlargement of those capabilities requires policy reforms to boost domestic savings and to attract investment into the export sector. Appropriate reforms typically involve credible anti-inflationary monetary policies, fiscal reforms to curb the prevalent dissaving of the public sector, and tax and exchange rate policies that make exporting profitable. These likewise are the prerequisites for attracting equity and debt capital from abroad, including repatriation of resident-owned foreign assets.

These supply-side reforms also

will heighten the confidence of commercial bank creditors in their continuing commitment to the debtor countries. Even though the latter are making net financial transfers to creditors, they are still importing capital on a net basis. Bank exposures to the LDCs are projected to rise at the relatively moderate pace of around 5% per annum during the next few years. Assuming that banks continue building up their capital, in the case of U.S. banks by 12% per annum, LDC loan-to-capital ratios could be back to the 1979 level in another three years.

Finally, maintenance of OECD economic growth is essential for LDC export vigor. So far the United States has been the driving force in OECD recovery and the principal destination for the surge in exports from developing countries. Exports by non-OPEC LDCs to the seven major industrial countries have risen by $38.5 billion in 1984 so far, on an annualized basis, over the second half of 1982. Over two-thirds of that increase went to the United States (see Table 11). Latin America's exports rose $11.6 billion, with almost 85% going to the U.S. market.

In view of the LDC debt problem, it is vital that the inevitable narrowing of the U.S. trade deficit be accompanied by smaller surpluses or larger deficits in other OECD countries, not at the expense of larger deficits in developing countries. This cannot happen until Japan and Europe are ready to absorb more goods from developing countries, both by pursuing more expansionary policies and by opening up their markets. Until then, it is of paramount importance to keep the U.S. economy strong and to attack its imbalances with care. Ideally, for the sake of U.S. and global economic health, the U.S. budget deficit should be cut back in a gradual manner tailored to the course of economic growth at home and abroad. Policies that control the growth in government spending and reforms of the tax system so as to further encourage savings and investment would be best, because they can sustain growth and ease the pressures on interest rates. Precipitate action to wipe out the U.S. budget and trade deficits, by contrast, would only lead to a global slowdown that worsens the problems facing Europe and the developing countries.

Statistical appendix

For key to data in tables see September 1984 issue.

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Information herein is from sources considered to be reliable but is furnished without responsibility on the part of Morgan Guaranty Trust Company.

Nominal effective exchange rates

Index numbers, 1980-82 average=100. Each index shows a currency's trade-weighted appreciation or depreciation measured against 15 other major currencies, using averages of daily noon spot exchange rates in New York and bilateral trade weights based on 1980 trade in manufactures. Annual figures are calendar year averages.

	United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Belgium	Neth-erlands	Spain	Swit-zerland	Den-mark	Norway	Swe-den
Pre-June 1970 parities	114.6	114.4	69.0	116.4	111.1	66.2	226.2	147.5	80.6	91.1	82.1	143.2	51.3	113.0	92.3	119.6
Smithsonian central rates	103.1	121.9	77.2	116.7	109.8	68.9	220.9	146.7	80.6	92.3	82.9	142.7	53.2	110.8	90.9	117.6
1980	90.7	100.4	95.5	96.0	106.5	100.0	108.4	99.8	99.4	105.9	100.2	106.5	95.4	105.1	98.2	103.9
1981	99.5	100.2	105.8	104.0	100.4	97.2	98.8	102.1	98.9	101.8	97.1	99.4	98.3	99.2	100.1	103.3
1982	109.8	99.4	98.6	100.1	93.1	102.8	92.8	98.1	101.7	92.3	102.7	94.1	106.3	95.7	101.7	92.8
1983	114.2	100.8	107.8	92.0	87.3	107.6	90.3	91.6	103.6	90.0	105.0	78.4	111.5	96.4	99.4	82.2
1983																
October	114.8	101.0	110.7	93.5	85.4	108.0	88.6	92.2	103.8	88.7	105.0	76.0	113.2	95.2	100.8	82.3
November	116.5	100.9	110.7	94.8	85.1	107.1	88.3	92.8	103.2	88.4	104.4	75.9	112.8	94.6	100.9	82.7
December	118.0	100.4	112.1	94.2	84.7	106.8	88.0	91.8	102.8	88.2	104.1	75.8	113.8	94.0	99.5	83.1
1984																
January	119.1	100.5	113.3	95.5	84.1	106.5	87.6	91.5	102.6	87.7	103.7	76.3	113.8	93.6	99.2	83.4
February	117.3	100.2	111.9	97.3	84.7	108.0	87.0	91.4	103.5	88.3	104.3	77.1	112.2	94.0	99.0	82.9
March	115.4	98.0	114.7	97.2	85.3	109.0	87.2	89.8	104.2	89.0	105.0	77.2	111.7	94.6	98.7	83.5
April	116.7	97.5	115.7	95.1	85.2	108.6	87.3	88.9	104.1	89.0	104.8	78.1	111.3	94.0	98.9	83.7
May	119.5	96.8	114.6	95.1	84.6	107.7	86.9	89.1	103.8	88.8	104.4	78.4	110.9	93.6	99.1	83.6
June	120.2	96.2	113.3	93.0	84.9	108.2	87.0	88.6	104.2	88.9	104.6	78.0	110.1	93.8	99.1	83.4
July	124.2	95.4	110.8	90.3	84.6	107.7	87.3	87.7	104.1	89.3	104.0	77.3	107.9	93.7	97.4	84.4
August	124.0	97.0	111.4	91.9	84.3	107.3	86.6	87.9	103.8	89.3	103.8	76.6	108.8	93.6	97.1	84.6
September	127.3	96.7	112.0	92.1	83.6	106.2	85.9	87.1	103.2	88.9	103.1	76.9	109.3	93.2	96.9	85.6
September 7	125.6	97.0	111.4	91.6	83.9	106.7	86.5	87.3	103.7	89.4	103.3	76.7	108.7	93.6	97.4	85.3
14	126.8	96.6	111.6	92.0	83.5	106.2	86.2	87.9	103.3	89.1	103.0	76.9	108.9	93.2	97.4	85.4
21	128.5	96.7	112.5	92.7	83.4	105.9	85.5	86.9	102.6	88.3	102.9	76.8	109.9	92.6	97.3	85.8
28	127.8	96.6	112.4	92.5	83.7	106.3	85.3	86.4	103.3	88.4	103.5	77.3	109.9	93.3	95.5	85.8
October 5	127.7	96.8	111.9	92.7	83.7	106.3	85.7	86.4	103.5	88.6	103.3	77.1	109.6	93.6	95.5	85.8
12	128.9	96.7	111.8	93.4	83.4	105.8	85.6	86.5	103.1	88.6	103.0	77.1	109.5	93.2	95.5	86.0
19	129.8	96.3	111.9	93.5	83.5	105.9	85.8	84.9	103.0	88.7	103.0	76.9	110.0	93.4	95.4	86.1
26	127.9	96.6	112.4	94.1	83.9	106.7	85.6	84.5	103.2	88.9	103.5	76.9	110.4	93.8	95.3	85.7

Real effective exchange rates

Index numbers, 1980-82 average=100. Each index is the corresponding nominal effective exchange rate adjusted for differential inflation in wholesale prices of nonfood manufactures. Underlying price data are partly estimated. Index revisions reflect revised price information or, less frequently, adoption of new price indices to measure inflation in one or more countries.

	United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Belgium	Neth-erlands	Spain	Swit-zerland	Den-mark	Norway	Swe-den
1980	89.4	99.6	103.0	93.0	102.2	103.5	103.5	99.9	100.2	107.5	99.9	100.9	98.7	103.5	96.6	101.2
1981	100.6	100.0	104.6	102.7	100.1	97.3	98.7	102.3	99.1	100.3	97.6	99.4	98.7	99.2	100.9	102.1
1982	109.9	100.4	92.3	104.3	97.7	99.2	97.8	97.9	100.7	92.3	102.5	99.8	102.6	97.3	102.5	96.7
1983	112.7	103.1	96.6	100.0	95.9	99.3	100.1	92.0	101.6	92.1	101.8	90.5	105.3	98.8	101.3	91.5
1983																
October	113.2	103.3	97.4	102.3	95.5	98.9	99.7	92.5	101.4	90.8	101.0	89.1	105.9	98.4	102.6	92.4
November	114.4	103.2	97.4	104.0	95.4	97.7	100.0	93.3	100.8	90.8	100.2	89.6	105.8	96.6	102.4	93.3
December	115.5	103.0	98.5	103.8	95.5	97.3	99.9	92.1	100.4	90.3	99.7	90.5	106.4	95.6	101.5	94.1
1984																
January	116.1	103.6	99.1	105.4	94.3	96.7	100.3	91.9	102.1	89.8	100.4	91.7	106.0	95.3	101.3	95.1
February	114.1	103.4	97.7	107.4	95.6	97.8	100.0	91.9	102.9	90.0	101.2	91.8	104.3	96.5	101.5	94.7
March	111.9	101.7	99.9	107.3	96.4	98.5	100.6	90.7	103.7	90.5	101.7	93.5	103.9	96.2	101.0	95.7
April	113.0	101.4	100.4	105.2	96.6	98.0	101.3	89.9	103.1	90.1	101.4	95.0	103.2	95.5	101.0	95.6
May	115.9	100.4	99.1	105.6	96.4	97.1	101.2	90.3	102.5	89.6	101.1	95.8	101.9	95.6	101.8	95.8
June	116.6	99.7	97.7	101.8	97.5	97.1	101.6	89.7	102.9	89.4	101.3	95.8	101.1	97.2	101.3	95.4
July	120.2	99.3	95.4	98.9	97.7	96.7	101.6	89.0	102.9	89.5	100.8	95.2	98.8	95.3	99.1	97.0
August	119.8	100.9	95.9	100.6	98.0	96.0	100.9	89.3	102.7	89.2	100.6	94.0	100.2	95.7	98.3	98.3
September	121.7	101.4	96.7	100.8	97.8	95.0	100.3	88.8	102.1	88.6	100.0	94.3	100.5	95.5	97.9	99.6

Eurocurrency deposit rates

prime banks' bid rates, at or near end of month

		1981	1982	1983	1984						
		Dec	Dec	Dec	Mar	Apr	May	Jun	Jul	Aug	Sep
Eurodollar	*overnight*	12.87	9.25	9.50	10.13	10.25	10.38	11.25	11.75	11.50	11.63
	one month	13.31	9.12	9.69	10.44	10.63	11.06	11.75	11.50	11.69	11.00
	three months	13.75	9.19	9.81	10.63	10.94	11.75	12.13	11.81	11.88	11.38
	six months	14.81	9.50	10.06	10.94	11.25	12.50	12.63	12.25	12.13	11.56
	twelve months	14.75	9.62	10.37	11.44	11.75	13.63	13.50	12.75	12.63	11.81
Euro-Canadian dollar	*one month*	15.37	10.00	9.12	10.00	10.00	10.69	11.75	12.44	12.13	11.88
	three months	15.37	10.00	9.50	10.38	10.50	11.38	12.13	12.75	12.13	12.06
	six months	16.37	10.13	9.75	10.69	10.94	12.31	12.69	13.06	12.38	12.00
	twelve months	16.37	10.25	10.00	11.19	11.44	13.38	13.50	13.25	12.63	12.06
Euro-French franc	*one month*	15.75	23.00	12.12	12.94	11.94	12.00	11.81	11.38	10.88	10.94
	three months	17.00	24.00	12.19	14.38	13.13	13.19	12.31	11.75	11.88	11.25
	six months	18.00	22.00	12.31	15.13	13.88	14.19	13.25	12.69	11.19	11.69
	twelve months	18.25	19.75	12.62	15.88	14.88	14.94	14.56	13.63	12.69	12.13
Euromark	*one month*	10.44	5.87	5.25	5.50	5.44	5.63	5.56	5.25	5.31	5.44
	three months	10.50	5.87	5.87	5.56	5.63	5.94	5.88	5.75	5.50	5.75
	six months	10.56	5.94	6.12	5.75	5.75	6.25	6.19	6.13	5.88	5.94
	twelve months	10.25	6.00	6.37	6.13	6.19	6.81	6.75	6.56	6.19	6.00
Euro-Dutch guilder	*one month*	10.75	5.12	5.81	6.06	5.75	5.94	5.94	6.13	6.06	6.00
	three months	10.75	5.19	6.00	6.06	5.94	6.13	6.13	6.38	6.25	6.25
	six months	10.75	5.38	6.25	6.19	6.06	6.88	6.44	6.69	6.56	6.38
	twelve months	10.75	5.63	6.37	6.50	6.44	6.94	6.94	6.88	6.81	6.50
Euro-Swiss franc	*one month*	8.87	2.81	3.37	3.50	3.31	3.94	4.19	4.81	4.50	4.69
	three months	9.25	3.25	3.75	3.63	3.63	4.06	4.44	4.88	4.69	5.13
	six months	9.25	3.44	3.94	3.81	3.94	4.44	4.56	5.06	4.81	5.19
	twelve months	8.50	3.44	3.94	4.13	4.19	4.75	4.75	5.06	5.00	5.06
Eurosterling	*one month*	15.37	10.56	9.12	8.75	8.56	8.94	8.81	12.25	10.75	10.69
	three months	15.69	10.44	9.31	8.88	8.81	9.81	9.44	12.25	10.69	10.69
	six months	15.69	10.31	9.50	9.06	9.06	10.44	9.94	12.19	10.63	10.69
	twelve months	15.37	10.31	9.81	9.31	9.38	10.94	10.56	12.13	10.75	10.75
Euroyen	*one month*	6.12	6.75	6.25	6.19	6.00	6.38	6.00	6.13	6.38	6.13
	three months	6.12	6.75	6.31	6.19	6.19	6.38	6.19	6.31	6.31	6.31
	six months	6.87	7.10	6.38	6.25	6.25	6.44	6.31	6.31	6.31	6.31
	twelve months	6.87	6.81	6.44	6.38	6.31	6.56	6.50	6.50	6.50	6.44
European currency unit	*one month*	14.63	12.44	8.63	10.00	8.81	9.00	9.00	9.31	9.06	9.63
	three months	14.75	12.31	9.06	10.00	9.06	9.38	9.31	9.63	9.31	9.81
	six months	15.00	12.00	9.44	10.00	9.56	9.88	9.81	10.06	9.94	10.06
	twelve months	14.56	11.19	9.63	10.13	10.00	10.25	10.25	10.31	10.25	10.25

International bond issues – by currency

new issues with a maturity of three years or more, publicly offered or privately placed in the period
millions of dollars

	1981	1982	1983	1984			Jan-Oct	
				Aug	Sep	Oct	1984	1983
Eurobonds	**31 616**	**51 645**	**48 501**	**7 437**	**6 929**	**9 246**	**62 783**	**41 283**
U.S. dollar	26 830	43 959	38 428	6 612	5 677	7 628	51 048	33 176
Canadian dollar	634	1 201	1 039	142	161	308	1 341	774
German mark	1 277	2 588	3 817	378	346	406	3 620	3 282
British pound	501	748	1 947	157	440	537	3 088	1 321
Japanese yen	368	374	212	—	61	—	409	212
European composite units	309	1 980	2 019	148	171	256	2 292	1 734
Other	1 697	795	1 039	—	73	111	985	784
Foreign bonds	**21 369**	**26 397**	**27 822**	**1 442**	**2 149**	**1 743**	**22 755**	**23 539**
U.S. dollar	7 552	5 946	4 545	100	250	300	4 087	3 635
German mark	1 310	2 952	2 671	—	190	212	1 621	2 177
Dutch guilder	481	956	1 053	92	73	158	979	970
British pound	746	1 214	811	85	101	157	1 176	724
Swiss franc	8 265	11 432	14 299	811	1 174	627	11 181	12 306
Japanese yen	2 457	3 418	3 772	350	290	275	3 336	3 071
Other	538	479	671	4	71	14	375	656
Total	**52 985**	**78 042**	**76 323**	**8 879**	**9 078**	**10 989**	**85 538**	**64 822**

International bond issues — by country of borrower

new issues with a maturity of three years or more, publicly offered or privately placed in the period
millions of dollars

	1981	1982	1983	1984			Jan-Oct	
				Aug	Sep	Oct	1984	1983
Industrial countries	**40 861**	**63 062**	**60 303**	**7 427**	**8 237**	**9 349**	**74 176**	**51 089**
Australia	991	2 250	2 529	319	152	339	2 065	2 182
Austria	1 557	1 668	1 290	—	95	100	1 857	1 078
Belgium	527	211	1 116	—	479	5	1 234	616
Canada	10 648	11 979	7 487	327	883	556	5 883	6 252
Denmark	695	1 269	1 719	421	233	193	3 197	1 399
Finland	672	815	666	135	44	204	1 259	812
France	3 156	8 386	6 461	1 026	586	539	6 289	5 959
Germany	279	1 101	3 095	337	—	151	1 577	2 734
Ireland	517	625	959	300	49	137	750	522
Italy	1 108	2 214	1 565	610	50	1 000	2 546	1 229
Japan	6 928	8 397	13 977	1 168	877	739	15 137	11 735
Netherlands	630	894	935	—	110	43	830	804
New Zealand	1 107	1 375	645	—	120	226	965	645
Norway	530	832	624	75	216	150	926	598
Portugal	30	206	76	—	60	20	325	46
South Africa	92	374	548	76	30	75	808	425
Spain	444	747	1 470	—	30	593	1 395	937
Sweden	2 050	2 479	3 809	332	164	799	5 877	3 676
United Kingdom	1 408	1 201	1 398	63	220	1 239	3 795	1 161
United States	6 770	14 538	7 325	2 125	3 552	2 111	15 741	6 293
*Other**	722	1 501	2 409	113	287	130	1 720	1 984
Developing countries	**4 886**	**5 003**	**2 535**	**378**	**80**	**276**	**2 167**	**2 190**
Latin American countries	**3 658**	**2 480**	**71**	**46**	—	**20**	**116**	**71**
Argentina	195	—	—	—	—	—	—	—
Brazil	60	91	—	—	—	—	—	—
Chile	30	—	—	—	—	—	—	—
Colombia	20	35	—	—	—	—	—	—
Mexico	3 012	1 919	—	—	—	—	19	—
Panama	25	—	21	—	—	—	—	21
Venezuela	291	385	—	—	—	—	—	—
*Other***	25	50	50	46	—	20	97	50
Asian countries	**1 068**	**2 075**	**2 252**	**282**	**80**	**256**	**1 961**	**1 967**
Hong Kong	70	40	50	—	—	—	—	—
India	271	225	60	71	—	20	212	40
Indonesia	97	412	328	—	—	—	50	328
Korea	323	172	556	170	60	236	827	465
Malaysia	—	807	883	—	—	—	540	819
Philippines	99	50	—	—	—	—	—	—
Singapore	30	125	70	—	20	—	20	70
Thailand	93	63	265	41	—	—	270	205
Other	85	181	40	—	—	—	42	40
Middle Eastern and African countries	**160**	**448**	**212**	**50**	—	—	**90**	**152**
Egypt	—	75	—	—	—	—	40	—
Israel	117	200	135	—	—	—	—	135
United Arab Emirates	—	20	—	—	—	—	—	—
Other	43	153	77	50	—	—	50	17
Centrally planned countries	**75**	**65**	**75**	**50**	—	**66**	**116**	**75**
China	—	65	50	—	—	—	—	50
Hungary	20	—	—	—	—	41	41	—
*Other****	55	—	25	50	—	25	75	25
International organizations****	**7 163**	**9 912**	**13 410**	**1 024**	**761**	**1 298**	**8 939**	**11 468**
Total	**52 985**	**78 042**	**76 323**	**8 879**	**9 078**	**10 989**	**85 538**	**64 822**

*Includes multinational organizations. **Includes unallocated. ***Includes COMECON institutions. ****Includes regional development organizations.

International bond yields

average yield of several actively traded, high quality issues with a maturity of 7 to 12 years
at or near end of month

	1981	1982	1983	1984							
	Dec	Dec	Dec	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
United States companies											
Eurodollar	n.a.	11.16	11.59	11.77	12.28	12.53	13.33	13.27	12.70	11.97	12.09
Euromark	n.a.	7.24	7.34	7.26	7.24	7.29	7.55	7.48	7.74	7.40	7.30
Swiss franc	n.a.	5.61	5.73	5.61	5.63	5.59	5.85	5.69	5.68	5.60	5.63
European governments											
Eurodollar	n.a.	12.53	12.65	12.58	12.96	13.27	14.18	14.14	13.61	13.03	12.92
Euromark	n.a.	8.10	8.12	7.63	7.82	7.88	8.03	8.07	8.31	7.94	7.78
Swiss franc	n.a.	5.36	5.59	5.33	5.34	5.35	5.59	5.55	5.43	5.35	5.35
European currency unit	n.a.	n.a.	11.77	11.08	11.29	11.49	11.40	11.63	11.60	11.58	11.43

Eurocurrency bank credits — by country of borrower

credits with a maturity of one year or more, publicly announced in period
millions of dollars

	1981	1982	1983	1984 Aug	1984 Sep	1984 Oct	Jan-Oct 1984	Jan-Oct 1983
Industrial countries	**86 022**	**42 571**	**38 742**	**2 813**	**2 753**	**2 878**	**64 703**	**31 995**
Australia	1 660	4 721	2 924	75	350	648	2 079	2 359
Belgium	380	1 172	883	—	—	—	—	83
Canada	4 112	3 838	967	249	—	48	2 089	517
Denmark	1 661	789	1 586	25	—	104	1 147	1 586
Finland	463	631	283	—	75	—	90	228
France	3 912	5 703	1 700	863	—	—	2 655	1 552
Greece	1 039	770	1 085	—	—	300	945	836
Ireland	1 361	401	764	—	307	—	378	621
Italy	6 030	3 757	2 980	105	21	388	2 112	2 690
Norway	713	1 769	1 236	—	—	87	111	589
Portugal	1 590	1 388	913	—	108	35	838	800
South Africa	287	1 479	752	10	50	—	410	752
Spain	3 242	1 849	3 041	50	—	249	2 160	2 499
Sweden	1 667	649	3 188	19	84	115	4 618	3 188
United Kingdom	747	1 635	1 328	66	335	410	3 624	1 269
United States	54 784	6 516	12 948	1 091	1 083	325	38 361	10 630
Yugoslavia	684	719	615	—	—	50	111	615
*Other**	1 490	4 785	1 549	260	340	119	2 095	1 181
Developing countries	**45 264**	**41 519**	**32 937**	**1 540**	**1 972**	**959**	**24 483**	**30 445**
Latin American countries	**30 152**	**26 719**	**15 406**	**405**	**455**	**250**	**12 970**	**15 302**
Argentina	2 534	1 565	1 750	—	—	—	—	1 750
Brazil	5 751	5 716	4 475	103	280	100	7 008	4 475
Chile	2 204	1 194	1 319	—	—	—	784	1 319
Colombia	1 030	741	549	200	160	—	564	549
Ecuador	934	815	431	80	—	—	80	431
Mexico	7 530	7 953	5 138	10	15	—	3 885	5 100
Peru	1 407	1 069	500	—	—	—	10	500
Venezuela	7 559	6 799	237	—	—	—	—	237
*Other***	1 203	867	1 007	12	—	150	639	941
Asian countries	**10 288**	**8 403**	**8 828**	**849**	**1 408**	**654**	**8 232**	[illegible]
India	377	284	809	59	—	309	614	719
Indonesia	725	1 250	1 467	381	12	—	1 325	1 441
Korea	2 824	2 923	3 250	253	1 030	45	3 648	2 858
Malaysia	1 725	1 909	950	15	100	—	784	920
Pakistan	350	455	365	100	—	—	100	340
Philippines	1 257	635	819	—	—	—	—	715
Thailand	692	268	349	21	85	300	943	299
Other	2 338	679	819	20	181	—	818	794
Middle Eastern and African countries	**4 824**	**6 397**	**8 703**	**286**	**109**	**55**	**3 281**	**7 058**
Algeria	—	26	1 934	—	—	—	200	747
Egypt	63	353	335	—	—	25	69	285
Morocco	774	326	226	—	—	—	115	226
Nigeria	1 802	2 042	1 775	—	—	—	—	1 758
Turkey	100	2 042	1 106	—	16	25	741	1 106
United Arab Emirates	363	93	876	—	—	—	39	776
Other	1 722	3 280	2 451	286	93	5	2 117	2 160
Centrally planned countries	**1 791**	**765**	**1 212**	**50**	**526**	**166**	**2 887**	**1 012**
East Germany	470	8	392	—	—	40	130	392
Hungary	550	340	683	—	250	—	1 127	483
Soviet Union	25	374	68	—	276	122	926	68
*Other****	746	43	69	50	—	4	704	69
International organizations****	**302**	**160**	**1 321**	—	—	**250**	**250**	**1 321**
Total	**133 379**	**85 015**	**74 212**	**4 403**	**5 251**	**4 253**	**92 323**	**64 773**

*Includes multinational organizations. **Includes unallocated. ***Includes COMECON institutions. ****Includes regional development organizations.

Eurocurrency market size

measured by foreign currency liabilities
at end of period, billions of dollars

	1977	1978	1979	1980	1981	1982	1983 Jun	1983 Sep	1983 Dec	1984 Mar
Gross market size	740	949	1 233	1 524	1 861	2 057	2 045	2 115	2 144	2 257
Nonbanks	135	174	245	327	428	474	489	515	540	603
Official monetary institutions	100	115	145	150	132	90	84	90	89	90
Other banks	505	660	843	1 047	1 301	1 493	1 472	1 510	1 515	1 564
Eurodollars as % of gross	76	74	72	75	78	79	80	80	80	78

Central bank discount rates

at or near end of month

	1981	1982	1983	1984					Current	
	Dec	Dec	Dec	May	Jun	Jul	Aug	Sep	Oct 31 1984	effective since
United States	12.00	8.50	8.50	9.00	9.00	9.00	9.00	9.00	9.00	Apr 9, 84
Canada	14.66	10.05	9.96	11.54	12.36	12.98	12.38	12.27	11.71	Oct 25, 84
Austria	6.75	4.75	3.75	4.25	4.50	4.50	4.50	4.50	4.50	Jun 28, 84
Belgium	15.00	11.50	10.00	11.00	11.00	11.00	11.00	11.00	11.00	Feb 16, 84
Denmark	11.00	10.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	Oct 27, 83
Finland	9.25	8.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	Jul 1, 83
France	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	Aug 31, 77
Germany	7.50	5.00	4.00	4.00	4.50	4.50	4.50	4.50	4.50	Jun 29, 84
Ireland	17.15	14.35	11.50	12.00	12.00	13.00	13.00	13.00	13.00	Jul 27, 84
Italy	19.00	18.00	17.00	15.50	15.50	15.50	15.50	16.50	16.50	Sep 4, 84
Netherlands	9.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	Sep 9, 83
Norway	9.00	9.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	Jun 6, 83
Portugal	18.00	19.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00	Aug 10, 83
Spain	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	Jul 26, 77
Sweden	11.00	10.00	8.50	8.50	9.50	9.50	9.50	9.50	9.50	Jun 29, 84
Switzerland	6.00	4.50	4.00	4.00	4.00	4.00	4.00	4.00	4.00	Mar 18, 83
United Kingdom	14.37	10.00	9.00	9.00	8.88	11.88	10.38	10.38	10.38	Aug 17, 84
Japan	5.50	5.50	5.00	5.00	5.00	5.00	5.00	5.00	5.00	Oct 22, 83
New Zealand	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	Jul, 81
South Africa	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50	Dec 12, 81
Argentina	98.50	128.54	183.75	167.37	167.37	199.94	199.94	199.94	199.94	Jul 1, 84
Korea	10.50	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	Mar 29, 82
Philippines	6.69	6.30	8.05	9.64	9.88	10.97	11.52	n.a.	11.52	Aug, 84
Singapore	9.50	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	Feb 19, 82
Thailand	14.50	12.50	13.00	13.00	13.00	13.00	13.00	13.00	13.00	Dec 9, 83
Venezuela	14.00	13.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	May 18, 83

Day-to-day money rates

monthly averages

	1981	1982	1983	1984							
	Dec	Dec	Dec	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
United States	12.37	8.95	9.47	9.59	9.91	10.29	10.32	11.06	11.23	11.64	11.37
Canada	14.53	10.63	8.78	9.63	9.50	9.72	9.78	10.75	11.41	12.25	12.13
Austria	7.50	6.00	5.75	5.87	6.00	6.38	6.50	6.50	6.50	6.63	6.63
Belgium	12.78	9.43	8.65	7.57	11.20	11.37	9.13	9.80	10.22	10.72	8.79
Finland	11.30	11.50	16.70	17.50	17.50	16.77	16.53	16.80	16.53	16.50	16.10
France	15.46	12.88	12.27	12.30	12.48	12.15	12.04	12.12	11.51	11.43	11.36
Germany	10.65	6.07	5.60	5.55	5.52	5.53	5.53	5.53	5.57	5.53	5.56
Ireland	16.88	14.54	12.19	11.25	10.75	12.12	11.75	10.94	12.00	11.88	12.38
Italy	20.63	19.00	17.88	17.67	17.25	17.25	16.93	16.75	16.75	16.63	17.34
Netherlands	10.67	5.31	5.84	6.12	6.13	5.79	5.62	5.85	5.98	5.85	5.84
Norway	18.60	11.00	13.00	11.45	13.00	13.00	13.00	12.50	12.00	12.50	13.00
Spain	18.73	20.30	16.41	18.14	14.75	11.54	11.93	11.91	11.15	12.69	12.51
Sweden	13.82	8.63	11.48	10.90	10.15	9.65	11.50	13.50	12.95	13.50	13.50
Switzerland	3.38	1.25	1.88	1.62	2.25	2.00	2.25	2.13	2.88	2.00	2.50
United Kingdom	9.13	6.70	7.77	7.12	7.08	6.25	3.25	5.00	8.63	10.58	7.28
Australia	12.84	11.04	4.56	9.05	11.21	13.45	13.30	11.44	11.34	10.94	10.56
Japan	6.70	6.92	6.47	6.04	6.05	5.88	5.74	5.91	6.03	6.11	6.32
South Africa	12.75	14.15	16.06	17.25	17.25	17.25	17.25	17.25	18.06	20.30	22.63
Argentina	84.93	155.32	178.30	128.53	128.52	161.88	161.88	161.88	194.56	194.56	194.56
Brazil	103.74	150.42	184.69	295.48	268.44	217.98	198.78	226.75	283.79	242.73	285.03
Hong Kong	10.75	9.13	13.90	3.31	7.32	9.00	11.00	13.00	23.40	11.30	11.99
Korea	14.40	13.84	11.40	10.50	10.00	11.70	11.90	11.90	11.70	11.70	11.20
Philippines	14.70	16.12	31.18	21.76	9.99	17.93	33.17	40.17	39.79	29.13	n.a.
Singapore	3.96	11.45	7.05	6.83	7.64	8.13	7.82	6.80	7.67	8.05	8.16

Treasury bill rates

bond equivalent yields, at or near end of month

	1981	*1982*	*1983*	*1984*							
	Dec	*Dec*	*Dec*	*Feb*	*Mar*	*Apr*	*May*	*Jun*	*Jul*	*Aug*	*Sep*
United States	11.90	8.15	9.28	9.48	10.09	10.02	10.13	10.29	10.67	11.06	10.64
Canada	14.41	9.80	9.71	9.79	10.53	10.59	11.29	12.11	12.73	12.13	12.02
Belgium	16.00	12.25	10.85	12.25	12.25	11.75	11.75	11.75	11.75	11.50	11.00
Ireland	17.35	14.70	11.63	12.16	12.59	12.35	12.10	12.08	13.23	12.81	12.71
Italy	21.36	19.11	16.95	15.81	15.61	15.45	14.99	14.85	14.99	14.99	14.50
Netherlands	9.75	5.62	5.63	6.12	5.88	5.38	5.63	5.88	5.75	5.75	5.50
Spain	n.a.	15.28	14.46	13.66	13.20	12.64	12.04	11.17	10.30	9.44	8.91
Sweden	n.a.	12.90	11.75	11.15	10.80	10.99	11.83	14.20	14.12	14.06	13.80
United Kingdom	15.31	9.90	9.08	9.08	8.59	8.59	9.99	9.08	11.77	10.22	10.39
Australia	13.27	9.39	8.54	10.35	13.11	11.89	11.81	11.24	10.60	9.74	9.60
Japan	5.42	5.42	4.91	4.91	4.91	4.91	4.91	4.91	4.91	4.91	4.91
New Zealand	11.25	11.25	7.80	7.80	7.80	7.80	7.80	7.80	7.80	7.80	7.80
South Africa	14.55	14.62	18.43	18.57	18.57	18.64	18.64	18.44	19.69	23.02	23.02
Brazil	92.62	115.40	179.15	179.15	179.15	179.15	179.15	179.15	179.15	179.15	269.00
Mexico	33.33	57.44	53.78	50.32	46.16	46.63	51.56	50.55	50.31	50.13	n.a.
Philippines	13.22	14.54	15.99	17.01	17.25	17.61	20.81	28.53	33.34	37.51	n.a.
Singapore	3.03	2.74	2.59	2.65	2.66	2.87	3.00	3.01	3.00	3.01	3.01

Representative money market rates

bond-equivalent yields on major short-term (mostly 3-4 month) money market instruments other than Treasury bills, at or near end of month

	1981	*1982*	*1983*	*1984*							
	Dec	*Dec*	*Dec*	*Feb*	*Mar*	*Apr*	*May*	*Jun*	*Jul*	*Aug*	*Sep*
United States	12.78	8.81	9.75	9.68	10.30	10.50	10.94	11.63	11.36	11.58	10.94
Canada	15.25	9.95	9.87	9.95	10.70	10.75	11.55	12.50	13.05	12.30	12.25
Belgium	16.00	12.35	11.00	12.50	12.35	11.90	11.90	11.90	11.90	11.50	11.00
France	15.25	12.75	12.19	12.54	12.56	12.31	12.25	12.06	11.63	11.18	10.94
Germany	10.50	6.20	6.30	5.85	5.80	5.70	6.25	6.10	6.05	5.90	6.05
Ireland	18.50	15.75	12.19	12.56	13.00	12.88	12.75	12.50	13.75	13.25	13.06
Italy	21.00	19.00	17.88	17.00	17.25	17.25	16.75	16.63	16.63	16.63	17.25
Netherlands	11.00	5.25	6.00	6.00	6.06	5.88	6.13	6.19	6.44	6.38	6.19
Portugal	13.80	15.04	24.11	23.79	23.99	24.04	24.00	25.25	24.65	24.53	n.a.
Spain	15.52	16.55	18.48	18.30	16.42	15.07	14.66	13.45	12.91	13.19	12.86
Switzerland	10.12	3.87	3.87	3.75	3.94	3.88	4.25	4.50	4.88	5.38	5.38
United Kingdom	15.69	10.50	9.31	9.21	8.88	8.81	9.75	9.44	12.31	10.69	10.69
Australia	16.00	10.65	9.50	13.00	13.55	14.20	13.55	12.70	12.50	11.10	11.30
Japan	6.30	6.80	6.42	6.40	6.40	6.20	6.35	6.32	6.33	6.32	6.32
New Zealand	16.05	16.75	12.10	15.00	14.75	15.00	17.00	17.00	16.50	15.25	16.75
South Africa	15.47	15.26	19.12	19.01	18.30	19.07	18.00	18.74	20.78	23.39	23.56
Chile	34.54	71.44	22.42	14.03	11.35	18.16	18.16	18.16	19.56	18.16	39.29
Hong Kong	14.18	10.13	12.84	7.87	7.90	9.93	12.38	13.13	17.06	12.83	12.78
Indonesia	14.48	18.50	19.50	20.50	19.50	18.50	19.00	20.00	21.00	n.a.	n.a.
Korea	15.69	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
Malaysia	9.50	8.50	9.80	8.51	8.95	9.10	9.20	9.70	10.20	10.50	10.30
Philippines	17.70	15.96	15.61	17.41	17.14	15.83	26.51	17.93	19.55	27.32	n.a.
Singapore	7.81	8.69	8.44	7.75	8.50	8.63	9.13	9.00	9.06	9.03	8.81
Taiwan	10.94	9.94	7.65	9.42	7.81	7.31	6.15	7.77	7.27	6.62	7.27
Thailand	14.29	12.25	16.00	17.00	15.50	13.50	14.00	13.50	13.50	13.50	14.50

Commercial bank deposit rates

at or near end of month

	1981	1982	1983	1984							
	Dec	Dec	Dec	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
United States	12.62	8.25	9.70	9.77	10.35	10.50	11.50	11.70	11.38	11.58	10.95
Canada	15.20	9.85	9.82	9.90	10.65	10.70	11.50	12.45	13.00	12.25	12.20
Austria	9.63	6.25	6.50	6.25	6.44	6.56	6.88	6.88	6.88	6.94	7.06
Belgium	15.50	12.25	11.25	12.37	11.75	11.50	11.88	12.50	11.63	11.25	10.88
Denmark	10.00	9.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Finland	5.00	4.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25
France	9.16	8.24	7.66	7.76	7.76	7.76	7.55	7.55	7.50	7.30	7.30
Germany	9.50	6.00	5.90	5.40	5.35	5.35	5.65	5.60	5.55	5.40	5.30
Ireland	18.38	15.25	11.75	12.37	12.63	12.50	12.50	12.25	13.13	12.75	12.75
Italy	13.25	13.25	13.25	13.25	13.25	13.25	11.64	11.64	11.64	11.64	11.64
Netherlands	11.00	5.37	6.13	6.00	6.06	5.75	6.00	6.13	6.31	6.13	6.13
Norway	12.75	13.50	12.75	12.50	12.75	12.75	12.50	12.50	12.25	12.25	12.75
Portugal	14.00	15.00	21.50	21.50	21.50	21.50	21.50	28.00	28.00	28.00	28.00
Spain	11.78	12 53	12.62	12.52	12.35	12.64	12.49	12.75	12.50	12.38	n.a.
Sweden	12.65	12.15	11.70	11.10	10.65	10.65	11.25	13.65	13.70	13.55	13.45
Switzerland	8.75	3.00	3.50	3.25	3.00	3 00	3.25	3.25	4.25	4.88	4.88
United Kingdom	15.69	10.31	9.31	9.25	8.88	8.91	9.94	9.44	12.25	10.59	10.63
Australia	15.65	10.20	10.40	12.20	13.13	13.36	13.43	12.80	12.28	10.85	10.68
Japan	6.50	7.00	6.50	6.63	6.50	6.35	6.50	6.45	6 47	6.46	6.42
New Zealand	15.50	16.50	11.50	10.00	10.00	14.75	16.50	15.00	15.00	15.50	15.25
South Africa	14.75	15.25	20.13	18.88	19.38	18.88	18.78	18.65	20.50	23.25	23.50
Argentina	86.76	103.42	176.41	121.66	121.66	158.17	158.17	158.17	188.58	188.58	270.00
Brazil	110.05	21.00	23.00	25.00	23.00	19.00	22.00	22.00	20.00	21.00	27.00
Chile	36 87	57.72	22.28	12.95	11.09	18.16	18.16	18.16	19.56	18.16	15.39
Hong Kong	12.50	7.50	9.00	5.50	5.50	8.00	9.50	12.50	12.50	9.50	9.50
Korea	14.40	7.60	7.60	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Malaysia	10.00	8.40	7.75	7.75	7.83	7.83	8.70	8.83	8.88	8.95	9.37
Mexico	31.82	52.54	54.70	51.21	47.63	47.30	49.00	49.00	49.00	48.35	n.a.
Philippines	13.35	14.10	14.96	15.57	15.37	15.30	15.92	20.83	19.92	20.63	n.a.
Singapore	7.50	6.25	7.44	7.19	7.69	8.01	8.38	8.19	8.19	8.19	8.19
Taiwan	10.75	7.50	7.00	7.00	7.00	7.00	6.75	6.75	6.75	6.75	6.75
Thailand	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Venezuela	14.75	15.50	12.00	11.50	11.00	11.50	12.00	12.00	12.50	12.50	12.00

Domestic government bond yields

long-term issues, at or near end of month

	1981	1982	1983	1984							
	Dec	Dec	Dec	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
United States	14.33	10.61	12.00	12.13	12.49	12.79	13.58	13.75	12.97	12.69	12.32
Canada	15.27	11.69	12.02	12.40	13.06	13.31	13.93	13.81	13.41	12.89	12.63
Austria	10.37	8.81	8.02	7.88	7.88	7.94	7.99	8.06	8.09	8.10	8.09
Belgium	13.99	12.66	11.89	12.35	12.20	12.08	12.19	12.13	12.05	11.82	11.85
Denmark	20.91	20.14	12.96	14.02	14.78	14.27	15.20	15.54	15.33	15.17	15.30
Finland	10.98	10.64	11.16	10.62	11.19	10.80	11.20	11.29	11.35	10.83	10.87
France	16.44	15.40	13.96	13.78	14.05	13.81	13.82	13.99	13.91	13.58	13.06
Germany	9.71	7.90	8.38	8.13	8.16	8.18	8.29	8.25	8.27	7.97	7.85
Ireland	18.28	14.54	14.25	14.16	14.08	14.14	14.49	14.58	14.89	14.95	14.98
Italy	21.39	19.70	17.69	16.34	15.69	15.74	15.71	15.47	15.12	15.23	15.64
Netherlands	11.28	8.16	8.58	8.56	8.40	8.45	8.52	8.68	8.69	8.50	8.26
Norway	12.37	13.32	12.50	12.25	12.25	12.25	12.00	12.00	12.00	12.00	12.00
Portugal	17.39	16.63	22.11	21.57	21.97	22.37	21.82	21.90	n.a.	n.a.	n.a.
Spain	16.20	15.92	16.71	18.68	18.74	18.64	18.69	18.18	17.66	17.44	n.a.
Sweden	12.80	13.01	12.30	11.50	11.50	11.65	12.60	14.01	14.19	13.70	12.98
Switzerland	5.40	4.22	4.54	4.56	4.37	4.47	4.61	4.69	4.66	4.58	4.81
United Kingdom	15.02	10.62	9.94	10.04	9.89	10.16	10.73	10.81	11.17	10.43	10.18
Australia	15.00	13.00	13.65	14.05	14.00	14.00	14.10	14.00	13.30	13.10	13.50
Japan	8.11	7.96	7.45	7.45	7.25	7.30	7.60	7.50	7.47	7.45	7.37
New Zealand	12.55	12.84	10.50	11.33	10.42	8.97	8.50	10.06	10.25	15.20	15.50
South Africa	13.33	11.31	13.64	13.80	13.78	14.46	14.68	14.72	15.93	16.04	10.44
Philippines	13.01	13.64	14.47	14.61	13.67	18.47	18.45	19.04	12.19	20.59	n.a.
Venezuela	12.50	15.00	13.50	13.00	13.00	13.50	14.00	14.00	14.00	14.50	14.00

Commercial bank lending rates to prime borrowers

at or near end of month

	1981	1982	1983	1984						
	Dec	Dec	Dec	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
United States	15.75	11.50	11.00	11.00	11.50	12.00	12.50	13.00	13.00	13.00	12.75
Canada	16.50	12.50	11.00	11.00	11.50	11.50	12.00	12.50	13.50	13.00	13.00
Austria	13.50	11.75	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25
Belgium	18.00	15.50	13.75	14.75	14.75	14.75	14.75	14.75	14.75	14.25	14.25
Denmark	15.00	14.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10 00	10.00
Finland	9.84	8.95	10.18	10.36	10.38	10.42	10.43	10.48	10.48	10.49	n.a.
France	14.00	12.25	12.25	12.25	12.25	12.25	12.25	12.25	12.25	12.00	12.00
Germany	13.00	8.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75
Ireland	17.25	16.50	13.75	13.75	13.75	13.75	13.75	13.75	13.75	13.75	13.75
Italy	22.50	20.75	18.75	18.50	17.50	17.50	17.00	17.00	17.00	17.00	18.00
Netherlands	12.00	6.25	7.00	6.75	6.75	6.50	6.50	6.50	6.75	6.75	6.50
Norway	13.75	14.50	13.50	13.75	13.30	13.30	12.75	13.00	12.75	12.50	13.00
Portugal	20.50	23.50	30.00	30.00	30.00	30.00	29.00	29.00	29.00	29.00	29.00
Spain	17.04	19.00	20.85	20.55	19.44	17.96	17.55	16.19	15.49	15.27	14 36
Sweden	15.00	15.00	13.50	13.50	13.50	13.50	13.50	14.50	14.50	14.50	14.50
Switzerland	8.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
United Kingdom	14.50	10.00	9.00	9.00	8.50	8.50	9.00	9.25	12.00	10.50	10.50
Australia	15.75	15.00	12.75	13.00	14.00	15.50	15.00	14.75	14.50	14 00	13.00
Japan	6.95	6.28	5.89	5.77	5.76	5.75	5.74	5.73	5.72	5.73	5.73
New Zealand	13.00	13.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	12 50	12.50
South Africa	17.00	18.00	20.00	20.00	20.50	20.50	20.50	20.50	22.00	25.00	25.00
Argentina	92.60	109.50	188.58	133.83	133.83	170.33	170.33	170.33	206.83	206.83	280.00
Brazil	152.40	23.81	24.00	24.00	24.00	23.00	26.00	26.00	22.50	23.50	32.00
Chile	61.43	85.19	35.11	22.75	21.26	34.35	33.04	32.30	32.30	30.38	35.58
Hong Kong	16.00	10.50	13.50	10.00	10.00	12.00	13.75	17.00	17.00	14.00	14.00
Indonesia	19.25	22.00	19.75	21.25	21.50	20.75	21.00	20.75	21.25	22.75	31.50
Korea	16.50	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Malaysia	12.00	12.50	11.00	11.00	11.00	11.00	11.00	11.50	11.50	11.50	11.50
Mexico	31.81	46.12	56.44	55.16	53.11	51.10	50.12	50.38	50.69	50.93	50.60
Philippines	18.00	18.00	18.00	18.00	22.00	22.00	24.00	24.00	24.00	n.a.	n.a.
Singapore	11.83	9.33	8.98	9.03	9.20	9.63	9.96	10.06	10.10	10.10	10.33
Taiwan	15.25	10.75	10.25	10.25	10.25	10.25	10.00	10.00	10.00	10.00	10.00
Thailand	17.00	16.00	16.00	16.50	17.00	17.00	17.00	17.00	17.00	17.00	17.00
Venezuela	15.50	17.00	16.00	14.50	14.50	15.00	15.00	15.00	15.50	16.00	15.00

Domestic corporate bond yields

long-term issues, at or near end of month

	1981	1982	1983	1984							
	Dec	Dec	Dec	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
United States	15.50	11.75	12.63	12.88	13.25	13.88	13.58	14.50	13.38	13.20	12.88
Canada	16.18	12.74	12.89	13.27	13.84	14.13	14.59	14.89	13.91	13.39	13.33
France	17.33	15.91	14.06	14.28	14.37	14.23	13.88	13.77	13.77	13.77	13.77
Germany	10.50	8.20	8.30	8.00	8.00	8.00	8.00	8.00	8.00	7.90	7.70
Netherlands	11.03	7.90	8.51	8.39	8.26	8.28	8.35	8.43	8.49	8.42	8.21
Norway	13.36	14.13	13.25	13.00	13.00	13.00	12.75	12.75	12.75	12.75	12.75
Spain	14.76	17.10	19.84	20.69	21.90	22.54	22.06	21.63	21.47	21.78	n.a.
Sweden	12.94	13.37	12.21	11.96	11.84	12.04	12.23	12.41	12.73	12.78	13.18
Switzerland	n.a.	4.87	4.94	4.91	4.85	4.91	5.10	5.07	5.10	5.12	5.12
United Kingdom	16.65	12.34	11.57	11.61	11.29	11.48	12.11	12.69	13.06	12.15	11.74
Australia	16.50	15.00	13.50	14.50	14.50	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Japan	7.70	7.55	7.09	7.04	6.92	6.89	7.16	7.13	7.09	7.06	6.98
Korea	26.90	15.90	14.20	14.00	13.60	13.00	13.20	13.70	14.00	14.50	14.60
Venezuela	17.00	18.00	18.00	17.50	17.50	17.50	18.00	18.00	18.00	13.50	18.00

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World Financial Markets

Morgan Guaranty Trust Company of New York

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Table 1

Unemployment

percent of labor force, national definitions

	1979	1983	1984*
United States	5.9	9.6	7.6
Japan	2.1	2.6	2.7
Canada	7.4	11.9	11.4
Western Europe	5.1	9.8	11.8
Germany	3.8	9.1	9.2
France	5.9	8.7	9.7
United Kingdom	5.1	12.3	12.7
Italy	7.7	9.9	10.5
Belgium	7.1	12.1	12.3
Denmark	6.1	10.7	10.6
Ireland	9.3	20.9	23.0
Netherlands	5.1	17.1	17.8
Spain	9.2	17.8	20.1
Sweden	2.1	3.5	3.1

*Average, January through latest available date.

Help wanted in Europe

European unemployment has to be rated a major dislocation in the world economy today. Its stubborn persistence and sheer high level are just as troubling as the much debated issues of LDC debt and the U.S. budget and trade deficits. Unemployment rates presently range from 9% to 13% in the four major European countries and exceed 20% in some of the smaller economies (see Table 1). Prospects for a significant near-term decline in unemployment are slim.

Europe's drift toward higher levels of unemployment emerged after the first oil shock and turned to flood tide after the second. Not only is European unemployment now substantially higher than in the late 1970s but Europe's record has deteriorated relative to the United States, where joblessness used to be chronically higher. Furthermore, with economic recovery, the U.S. unemployment rate has dropped sharply, whereas in Europe, despite some comeback in output, joblessness has edged higher, or at best has stabilized since the 1981-82 recession.

Low unemployment used to be an important policy goal for European governments. Many now despair of achieving actual reductions in the jobless rolls over the remainder of the decade and seek only to prevent further increases. Confidence is lacking in the employment benefits of expansionary demand policies. Expansionary policies have not been in favor since the 1978 Bonn economic summit of leading industrial countries, when Europe and Japan embraced the "locomotive" strategy for growth. Although economic growth then duly accelerated, the second oil shock and the ensuing inflationary surge have discredited that strategy in the view of many European governments. Policymakers in the 1980s have been preoccupied with curbing inflation, correcting external trade imbalances, and cutting fiscal deficits.

When the economic summit returns to Bonn in 1985, European unemployment should be a topmost concern. Even though social safety nets make chronic high unemployment less painful than in the 1930s, it still engenders social, political, and economic tension. Without a healthy European economy, the solution of other economic problems, such as third world debt and the U.S. trade deficit, becomes far more difficult.

There are no quick and easy answers for reducing European unemployment. Slow economic growth, structural rigidities, and self-defeat-

Table 2

Growth in total labor force

annual average, percent

	1975-79	*1979-82*	*1983*
United States	2.8	1.6	1.2
Canada	3.0	2.1	1.9
Japan	1.3	1.0	2.0
Western Europe	0.7	0.8	0.6
Germany	0.0	0.7	—0.1
France	0.9	0.5	—0.5
United Kingdom	0.7	0.0	0.3
Italy	1.3	1.0	0.9
Belgium	0.8	0.3	0.5
Denmark	1.4	0.9	1.1
Netherlands	2.0	2.1	0.9
Sweden	0.8	0.7	0.4

Source: OECD.

Table 3

Labor force participation

active labor force as percent of population of working age

	Men			*Women*		
	1975	*1979*	*1983*	*1975*	*1979*	*1983*
United States	84.7	85.1	84.7	53.2	58.9	61.9
Canada	86.2	86.2	85.0	50.0	55.5	60.3
Japan	89.7	89.2	89.1	51.7	54.7	57.2
Western Europe	87.3	84.8	82.2	45.7	47.9	48.7
Germany	87.0	84.5	80.0	49.6	49.6	49.6
France	84.4	83.2	79.4	49.9	52.5	52.1
United Kingdom	92.2	90.6	87.9	55.3	58.2	57.5
Italy	84.2	82.7	81.0	34.6	38.8	40.8
Belgium	83.7	80.9	79.4	43.9	47.3	49.4
Denmark	89.8	89.6	89.2	63.5	69.9	72.5
Ireland	88.5	87.3	86.5	34.8	35.2	36.2
Netherlands	83.2	79.0	80.3	31.0	33.4	38.7
Spain	91.3	82.6	79.3	31.6	32.4	33.1
Sweden	89.2	87.9	85.9	67.6	72.8	76.6

Source: OECD.

ing institutional arrangements — particularly in the labor markets — have all contributed to the rapid rise in unemployment. Structural rigidities, coupled with still strong economic nationalism and protectionism, also underlie Europe's increasing sense of technological inferiority vis-à-vis Japan and the United States. Some even fear that if Europe fails to tackle these problems, it will wind up in the "ash can" of industrial history.

In the quarter century since the signing of the Treaty of Rome that established the European Community (EC), the EC has earned handsome returns in economic growth and political security for the Western world. Yet a rewrite of the treaty may now be overdue. Europe urgently requires a new economic and social program to revitalize its economy, create jobs, and enable it to participate fully in the postindustrial revolution.

Such a program must be promoted, not within narrow national bounds, but on a pan-European level that allows exploitation of large combined markets. A true Common Market, extending to services and high technology and with subsidies to agriculture and other uncompetitive sectors scaled back, has the potential to galvanize European energies once again. Thus what Thatcherism and Reaganomics have shown about the importance of private enterprise and initiative has to be translated to the European institutional context. Policies that promote labor market adjustment and redirection into sunrise industries will provide a rich bonus of jobs and economic growth. With a conducive environment for investment at home, the outflow of capital from Europe to the United States should slow and the dollar might give up some part of its super strength. Both developments would assist correction of the U.S. trade deficit. Thus there is great potential economic payoff from positive policies in Europe. There could be still greater dividends for the free world at large once Europe gets back on the road to constructive economic and political union.

The stagnant job market

Europe's unemployment problem surfaced in the mid-1970s. From 1975 through 1980 total employment in Europe increased by 2.8 million, sufficient to absorb little more than 40% of the increase in the labor force. In the United States and Japan, by contrast, total employment increased by 13.4 million and 3.1 million, respectively, in both cases absorbing the entire increase in the labor force. The recession following the second oil shock pushed European unemployment dramatically higher. Overall employment in the EC fell by close to 3 million, or 2.7%, between 1980 and early 1983. Industrial employment alone fell 11.7%. The subsequent economic recovery has yet to make a dent in the figures.

Table 4

Long-term unemployment

workers unemployed 12 months or longer as percent of total unemployment

	1979	*1983*
United States	4.2	13.3
Canada	3.5	9.5
Japan	17.2	14.3*
Germany	19.9	28.5
France	30.3	42.6
United Kingdom	24.5	36.2
Belgium	58.0	62.8
Netherlands	27.1	43.7
Spain	27.5	53.8
Sweden	6.8	10.1

*1982.
Source: OECD

Table 5

Youth unemployment

percent of labor force under 24 years of age

	1979	*1983*	*1984*
United States	11.3	16.4	13.0
Canada	13.0	19.9	19.0
Japan	3.4	4.5	4.8
Germany	3.4	10.8	10.3
France	13.3	21.0	26.1
United Kingdom	10.6	23.2	21.8
Italy	25.6	32.0	33.5
Sweden	5.0	8.0	7.5
Spain	22.3	38.9	41.3

The U.S. unemployment picture has been helped by a slowing in the rate of increase in the labor force since 1979 (see Table 2). European labor force growth has displayed no such deceleration. However, the expansion of the active labor force has been held down by a rapid decline in the participation rate, especially on the part of older males (see Table 3). Male participation has declined not only through the effects of early retirement schemes but also because poor employment prospects have prompted workers to drop out of the labor market.

The participation statistics suggest that the active labor force will continue to grow even after the working-age population begins to decline. Better employment prospects would lure discouraged workers back into the labor force. Moreover, rising female participation rates could well add substantially to labor force growth. Female participation rates have already risen significantly since the mid-1970s. Further increases are likely, especially in countries such as the Netherlands and Ireland that now have extremely high unemployment rates but relatively low female participation rates. Thus, European unemployment is not just a matter of short-range demographics but a profound structural condition.

Moreover, the increasingly long-term character of unemployment has insidious social costs, especially for young people (see Tables 4 and 5). Youth unemployment rates have risen sharply in Europe and range from 20% to over 30% in most countries. Even in Germany, where youth long enjoyed ready access to employment through apprenticeships and other on-the-job training, the youth unemployment rate has more than tripled since 1979 and is now around 10%. Young people who cannot find work early in their careers face immense difficulties later in a modern economy. Unless they are able to develop job skills and work experience, their expected earnings will be curtailed throughout their working lives.

Labor market failings

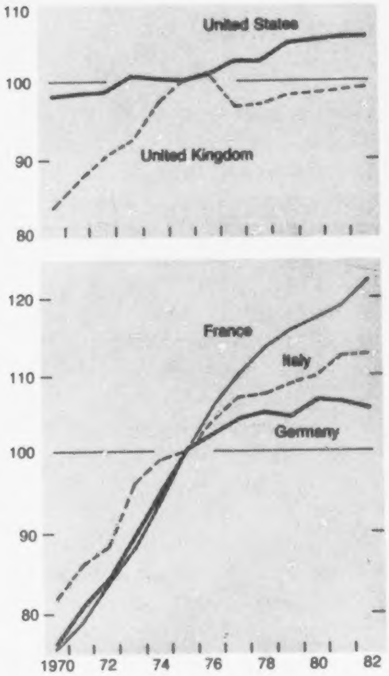
The institutional structure of European labor markets has played a key role in Europe's employment problem. This first became evident in the late 1970s, when Europe's unemployment rose despite economic growth. At that time, most commentary lauded Europe's superior labor productivity gains by comparison with the faltering performance of the United States. Now, the productivity contrast attracts less notice than the disparate employment record. Structural impediments to job growth in Europe include: job protection statutes; inflexible work arrangements and work force immobility; government policies that burden employers with heavy social charges on employment; and excessive increases in real labor costs.

Although intended to protect workers, legal procedures that make layoffs difficult — and sometimes all but impossible — are actually counterproductive. Such rules bias firms toward minimizing labor use at all times, lest they be forced to carry excess labor during periods of demand weakness. These rules also contribute to the large proportion of long-term unemployment, since labor that has been laid off is unlikely to be recalled to meet short-term increases in demand. In addition, restrictions on the use of part-time workers and overtime encourage a labor-saving bias in investment. Companies install excess capacity to meet surges in demand, in preference to hiring new workers. These biases hit young workers especially hard, since employers are reluctant in any event to take them on in un-

Chart 1

Real hourly wage costs

Indices, 1975 = 100



certain times, the more so when their initial productivity falls short of mandated compensation.

Most European governments now recognize that these labor market rigidities raise unemployment. Yet they are not always able to resist political pressures for still greater interference with the market. Some countries, for example, have legislated reductions in the workweek, ostensibly to promote employment. But unless, as in the Netherlands, reduced working hours are accompanied by commensurately lower wages, the consequences are to boost real labor costs and thereby to destroy jobs. Most countries, however, now are seeking to introduce more flexibility in the labor markets. Restrictions on part-time work and overtime are being relaxed. Job security provisions are being loosened, if only slightly. Governments, particularly in the United Kingdom, are standing up more effectively to labor union demands. All across Europe, unions face tougher bargaining in both the private and public sectors.

Since oil prices began to increase in the early 1970s, a steep increase in labor costs has been an important factor sapping the employment potential of European economies. Cost-of-living escalators preserved real wages in the face of the terms-of-trade deterioration. In Europe, the transfer of wealth and income entailed by the increase in oil prices came at the expense of profits, not wages. Labor use declined as its price increased relative to capital, aggravated by the widespread use of general and targeted investment subsidies. Labor cost problems were heightened by increased social charges and indirect taxes such as social security levies, which typically are a much higher multiple of wage costs in Europe than in Japan or the United States. The pervasive social welfare system is financed, in many cases, through charges on labor use. Only in recent years have these social levies on labor use been reduced or stabilized.

Even so, labor costs have increased very sharply in Europe. Real labor costs per employee rose 2.1% a year from 1973 to 1983 in the EC compared with a 0.5% annual increase in the United States. In the United Kingdom, real labor costs climbed rapidly in the first half of the 1970s. Under the influence of high unemployment, they subsequently stabilized. On the continent, real wage moderation has only taken hold since the second oil shock (see Chart 1).

The major cumulative increase in European labor costs over the past decade has made labor productivity gains a necessity for business survival: thus, real GDP per employed worker rose 1.9% a year in the EC during the ten years ended 1983. The increased productivity was achieved by substitution of capital for labor, as capital per worker rose 3.0% a year. The increased use of capital helped depress its rate of return by 1.8% a year, even before adjustment for inflation.

The decline in European business profitability was hardly conducive to employment gains. However, since the end of the recession in 1982 there has been a sharp recovery in profitability, aided by much reduced nominal wage increases and the shedding of excess labor. In Germany the share of profits in GDP has risen to about 22%, distinctly above the 19%-20% typical of the early 1980s. Similarly, in France the ratio is now about 13.5%, compared with 12% in 1982. Profits also have recovered in the United Kingdom. Gross trading profits of U.K. companies rose to over 17% of GDP by the end of 1983 from under 13% at the start of 1982.

The upturn in profitability may not mark a permanent reversal of the earlier adverse trend. It remains to be seen whether profitability can remain high once the process of work force rationalization is completed and the European economies recover fully. Yet unless the improvement in profitability is sustained, there will be scant incentive for business to switch from cost-reducing investment to capital-widening projects that create jobs.

Jobs, technology, and the "common" market

Europe's employment problems are aggravated by the continuing need for industrial restructuring in heavy industries such as steel, chemicals, shipbuilding, and even automobiles. Comparative advantage in producing these products is shifting to the newly industrializing countries (NICs). Efficient specialization at a global economic level implies that the NICs should concentrate over time on these sectors while Europe, Japan, and the United States, with their vast reserves of human capital and scientific know-how, stress services and high-technology "cutting edge" sectors. This is reminiscent of the earlier shift of comparative advantage in the production of textiles and leather products.

Understandably, neither Europe nor the United States has taken up the challenge with wholehearted enthusiasm. But there is growing recognition that protection cannot stave off restructuring indefinitely, although such recognition has by no means stemmed protectionist impulses. Europe, however, faces several impediments to successful adjustment that are much less troublesome for the United States. First, European integration has not proceeded to the point where restructuring can occur at an efficient pan-European level. Rather, the particular interests of each national economy must still be taken into consideration, leading to acrimonious conflict over internal market shares and procrastination over capacity reduction. The United States, in contrast, can restructure its industries at a continental level, retaining only the most efficient plants across the country.

Second, the slow economic growth trend in Europe makes it difficult to find new jobs for displaced workers. There are few industries that find demand growing so fast as to require new jobs, in contrast to the more dynamic U.S. growth path.

Third, the tradition of state participation and direction, as well as the dominance of large "national champion" companies, has made it difficult for Europe to take advantage of the explosion of high-tech products. Bureaucracy and government regulation favor large-scale undertakings. However, these are usually heavily unionized and still have compelling reasons to reduce their labor costs. Moreover, their track record in innovation has often proven indifferent. The problem is not so much the scale and competence of basic research as the absence of ready communication and job mobility between universities and businesses in Europe. This handicaps the commercialization of research. Meanwhile, big companies often judge the development of markets for new products to be less worthwhile than the sustenance of their established interests.

Fourth, U.S. experience shows that small entrepreneurial businesses have a comparative advantage in innovation. They also have proved the main source of employment gains. The ready availability of venture capital, plus entrepreneurial spirit and experience, has facilitated rapid exploitation of new products and technologies. Once the market for the new products has been demonstrated, often on a high-cost basis

Table 6

Real GNP growth

annual average, percent

	1973-79	1979-83	1984	1985
United States	2.8	0.9	6.7	3.6
Canada	3.2	0.7	4.2	2.5
Japan	3.7	3.8	5.3	4.5
Western Europe	2.4	0.8	2.2	2.5
Germany	2.4	0.4	2.4	2.5
France	3.1	1.0	1.9	2.5
United Kingdom	1.4	0.6	2.2	3.0
Italy	2.6	0.6	2.5	2.5
Belgium	2,4	0.8	1.5	2.0
Denmark	2.1	1.1	3.5	3.0
Netherlands	3.3	—0.1	2.5	2.5
Sweden	1.8	0.9	2.8	2.0

Source: OECD.

at the outset, big corporations have been able to come in with large-scale production methods that reduce costs dramatically.

The personal computer industry provides an illustration. Before the Apple II and other personal computers were developed and marketed in the United States, a small microcomputer was developed in France. Unfortunately, it languished for lack of application. The explosion in the U.S. personal computer industry was not only the result of the marketing of a specific computer but also depended crucially on the quick response of many small innovative concerns in developing software. The booming demand for these products paved the way for many more small businesses and the entry of large corporations.

By comparison with the United States, Europe offers a discouraging climate for small entrepreneurs. Notwithstanding the recent vogue for venture capital schemes, small companies face major difficulties in procuring start-up capital. They are often deterred from even trying to get started. Punitive bankruptcy statutes in some countries render the risk of business failure unacceptably costly. In addition, small businesses are particularly handicapped by Europe's labor market rigidities. Flexibility is crucial to entrepreneurial survival.

Fifth, just as they impede efficient rationalization of declining industries, the remaining economic barriers between the nations of the "uncommon" European market hamper Europe's competitiveness in high-technology sectors. As is most evident in telecommunications, national markets are too small to permit economies of scale in research, production, and marketing. Incompatible national standards inhibit intra-European trade, as does the tradition of strict national protectionism in government procurement. Moreover, even at a national level, there is a reluctance to deregulate (communications are organized as public monopolies or, in the case of the newly "privatized" British Telecom, as a private monopoly under close government direction). Indeed, some Europeans make no secret of their hopes that U.S. deregulation of communications will fail and thus reduce pressure for deregulation in Europe. More generally, public ownership of large industrial concerns makes it difficult to integrate national markets because other countries are reluctant to allow free access to foreign public entities.

In responding to the American and Japanese challenge, the governmental reflex has been to shelter the European market from foreign competition — for example, by adopting technical standards incompatible with those in the United States or Japan and by forming cartels to share out the market among European concerns. The market-oriented preference of the competitive private sector is the formation of alliances with American and Japanese competitors. This private-sector strategy helps ensure continued access to front-line technology as well as to the fast growing world market. Breaking down the national identity of firms via such alliances may lead in the long run to more genuine integration of European markets than will the politically sponsored cartel approach.

Sixth, the promise of high-tech industries for increasing economic efficiency and job creation in Europe lies less in manufacturing than in the application of new technology to the service sector, for which private demand is likely to grow fastest. Hitherto, strict regulation of service markets at the national level has hampered their growth not only in new technologies but also in traditional areas. Allowing more flexibility in shopping hours, for exam-

Table 7

Consumer price inflation

percent, December-December

	1980	*1984*	*1985*
United States	12.4	4.2	4.9
Canada	11.2	4.0	4.0
Japan	7.0	2.5	2.5
Western Europe	11.9	5.9	5.6
Germany	5.5	1.9	2.0
France	13.7	7.0	6.5
United Kingdom	15.1	5.0	5.5
Italy	21.2	9.0	8.5
Belgium	7.5	6.0	6.0
Denmark	10.9	6.0	5.0
Netherlands	6.7	3.3	3.0
Sweden	14.0	7.5	6.5

Table 8

Current account balances

billions of dollars

	1980	*1984*	*1985*
United States	1.9	—105.0	—120.0
Canada	—1.0	1.0	1.2
Japan	—10.8	34.0	36.0
Western Europe	—53.8	6.0	8.0
Germany	—15.8	3.8	5.5
France	—4.2	—1.9	—2.2
United Kingdom	8.4	—1.0	1.0
Italy	—9.8	—0.4	—1.5
Belgium	—5.0	1.2	1.6
Denmark	—2.4	—1.7	—1.4
Netherlands	—2.6	3.2	4.3
Sweden	—4.5	0.5	—0.5

ple, could permit substantial gains in retail employment. It also would better accommodate the needs of working people.

Finally, advances in technology are rapidly increasing the potential economic gains from integration of national markets for telecommunications, information, insurance and other financial services. Here too Europe has far to go in achieving full liberalization. Yet these are precisely the sectors in which large-scale employment gains can be reaped in the years ahead. However, such gains will not be realized until European policies resume their former orientation toward economic growth.

European policies: fighting inflation and deficits

The escalation in Europe's unemployment owes much to the slow economic growth that has accompanied a shift in the goals of macroeconomic policy (see Table 6). The European economies during the past four years have been growing far below their previous trends. The unemployment penalty from low growth is severe. For example, economic growth by one percentage point per annum *below trend* increases unemployment by 0.2 percentage points *per annum* in the United Kingdom and 0.3 percentage points in Germany.

Until the late 1970s most European governments dedicated monetary and fiscal policies primarily to the fostering of economic growth and employment expansion. Since the second oil shock in 1979, by contrast, European macroeconomic policies have subordinated growth and employment objectives to the reduction of inflation, and of current account and fiscal deficits.

Inflation has now been significantly reduced in almost all European countries compared with the 1970s (see Table 7). Whereas inflation declined substantially after the first oil shock in some countries, in others it persisted at a fast clip. Now inflation has been brought down not only in the low inflation countries but also in those with high inflation rates. The most dramatic example is the United Kingdom, where inflation after the first oil shock troughed at 7.4% and subsequently soared well over 20% in 1980. In 1984, by contrast, British inflation should be no more than 5%. Inflation also is declining in France and Italy, where it had remained at high levels in the second half of the seventies. Meanwhile, Germany's inflation has fallen below 2%.

As for external deficits, the challenge at the beginning of the decade was to correct the large imbalances triggered by the rise in oil prices and by the speedup in economic growth stimulated by the locomotive strategy. The European current account position, in surplus by $20 billion in 1978, plunged into deficit by $54 billion in 1980 (see Table 8). Since then, slow economic growth and exchange rate depreciation have helped reduce these external imbalances. An overall current account surplus of $6 billion is expected in Europe this year, rising somewhat higher in 1985. However, the ability of those countries still in deficit to cut their imbalances further without restraining domestic growth is limited by the moderate economic growth in the larger European economies, the principal markets for their exports.

The main instrument for inflation and deficit reduction in Europe has been tight monetary policy. When inflation accelerated in 1980, growth in the monetary aggregates was curtailed. The shift by the United States to resolute inflation fighting and high interest rates created additional pressures for tighter European

Table 9

General government financial balances

as percent of GNP

	1974	*1979*	*1984*
United States	—0.3	0.6	—3.2
Canada	1.9	—1.8	—6.0
Japan	0.4	—4.8	—2.2
Western Europe	—1.7	—3.2	—4.4
Germany	—1.3	—2.7	—1.7
France	0.6	—0.7	—3.5
United Kingdom	—3.7	—3.2	—3.1
Italy	—8.1	—9.5	—13.5
Belgium	—2.6	—7.0	—11.2
Denmark	3.1	—1.9	—4.9
Netherlands	—0.4	—4.0	—5.9
Sweden	2.0	—3.0	—3.5

Source: OECD.

Table 10

Structural budget balances

general government, as percent of potential GNP

	1974	*1979*	*1984*
United States	0.7	1.2	—0.7
Canada	1.1	—1.6	—2.4
Japan	0.7	—4.3	—1.7
Western Europe	—1.6	—2.9	—1.5
Germany	—0.5	—2.3	1.4
France	0.7	—0.8	—0.0
United Kingdom	—3.7	—3.2	1.5
Italy	—8.1	—9.7	—10.5
Belgium	—4.4	—7.4	—5.0
Denmark	3.9	—1.9	—4.3
Netherlands	—1.1	—1.3	—0.9
Sweden	0.8	—1.7	—1.0

Table 11

General government debt

percent of GNP

	1974	*1979*	*1984*
United States	41.3	39.8	46.0
Canada	44.4	46.7	58.1
Japan	17.9	47.6	67.7
Germany	19.7	30.6	40.7
France	24.7	26.3	36.6
United Kingdom	70.3	56.0	55.3
Italy	57.7	68.1	85.3

Source: OECD.

monetary policies in an effort to limit exchange rate depreciation and imported inflation.

Tight monetary policy in Europe was reinforced by a shift to more restrictive fiscal policy. Unlike the United States, which moved toward fiscal expansion in 1981, European governments felt that the fiscal stimulation of the 1970s had to be reversed. Governments also sought to curb the role and size of the public sector to lessen the drain of resources and savings from the private sector. Thus, there was no acknowledged scope for expansionary fiscal policies, not even through tax cuts.

European fiscal positions moved into deficit during the recession following the first oil shock (see Table 9). These deficits were reduced somewhat in the subsequent years. Fiscal consolidation was pursued throughout the late 1970s in the United Kingdom. On the continent however, deficits rose sharply between 1979 and 1981 as the economies moved into recession again. By 1981 European budget deficits averaged 4.5% of GDP, compared to 3.2% in 1979.

Since 1981 budget deficits have stabilized in many countries and have diminished substantially in others, notably in Germany and the United Kingdom. The change in Europe's fiscal stance is even more dramatic when allowance is made for the cyclical position: between 1979 and 1984 structural budget deficits were reduced on average by almost 1.5% of GDP (see Table 10). Even so, government debt to GDP ratios in most European countries have continued to rise and currently average considerably higher than the much criticized government debt burden of the United States (see Table 11).

For the most part, Europe's fiscal consolidation has not achieved a reduction in the role of government, which was a major policy goal. Government outlays have continued to increase faster than GDP, now accounting for over 50% of GDP in the four major European countries, compared with 40% ten years ago. Deficit containment has required a steep rise in the tax burden. Government current receipts presently exceed 45% of GDP, compared with 39% in 1974. Genuine limitation of the public sector is now more urgent than ever, since excessive tax burdens drain economic vitality and dynamism. Furthermore, for Europe as a whole (but with the United Kingdom as something of an exception) fiscal consolidation has yet to yield a decisive cutback in government subsidies to the many inefficient sectors. Such subsidies not only slow the adjustment of weak sectors but also sap the strength of the vigorous and efficient.

European policies: toward stronger economic growth

Mindful of past inflationary excesses, many Europeans have come to believe that employment cannot be raised permanently by macroeconomic policies that boost domestic demand. They argue that the "non-accelerating inflation rate of unemployment (NAIRU)" — the unemployment rate at which an economy can operate for sustained periods without experiencing a rapid rise in inflation — has gone up sharply in Europe. Accordingly, it is said that attempts to lower unemployment through expansionary macroeconomic policies can only result in higher inflation. The argument rests on an interpretation of labor market behavior that judges European unemployment to be predominantly structural or even voluntary, in the sense that the high level of social benefits and the rival income-earning opportunities available in the underground economy inhibit re-

Chart 2

Eurocurrency interest rates
on 3-month deposits, in percent

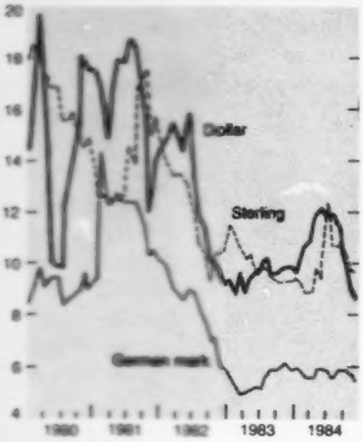
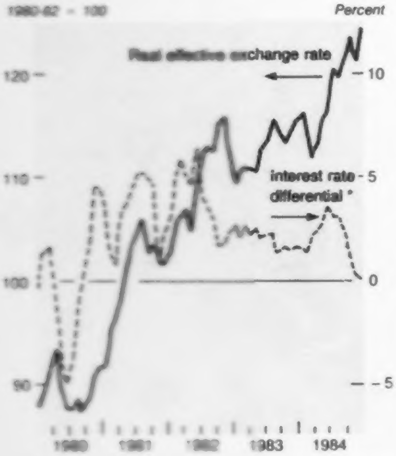


Chart 3

Real interest rates and the dollar



* Inflation-adjusted 3-month Eurodollar deposit rate minus GNP weighted average of rates for seven other major Eurocurrencies. The inflation adjustment uses centered 12-month rates of change in consumer prices, including projections for 1985 where necessary.

covery in recognized employment.

There are some elements of truth in this interpretation. Europe's labor markets long have lacked the flexibility of the United States'. They also displayed increasing rigidity in the 1970s. Yet it is hard to discern so crippling a deterioration that the NAIRU could have climbed in lockstep with actual unemployment during the past five years. The empirical record fails to support the extreme positions advanced by some European policymakers, namely that domestic stimulus is 100% ineffectual in spurring economic growth and that it is actually counterproductive when provided through budget deficits. Moreover, there is something of a contradiction in the European antipathy toward domestic policy stimulus while, at the same time, the stimulus of increased exports is gladly accepted.

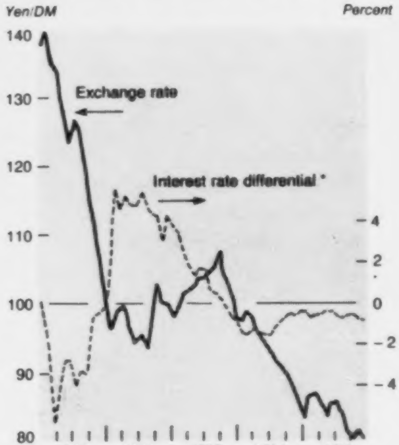
Fears of yet further currency depreciation, and a consequent revival of inflation, also discourage adoption of expansionary policies in Europe. These fears seem exaggerated. Constructively expansionary policies that make Europe a more attractive home for investment may well strengthen European currencies, not weaken them. As for the inflationary fallout from any temporary currency weakening, it is true that Europe's import prices normally rise as a result. But the increase is not in one-to-one proportion to the currency depreciation, since the dollar price of internationally traded commodities tends to decline when the dollar strengthens — petroleum is no exception. More important, the economywide inflationary consequences of higher import prices depend crucially on the degree of formal or informal indexation of wages to prices. Many European countries have made substantial headway in recent years in loosening such indexation. Moreover, heavy unemployment has served to moderate wage growth. The upshot has been an impressive reduction in inflation even in the face of the 53% average depreciation of European currencies against the dollar since 1980. Cautiously expansionary policies, therefore, need not jeopardize continued progress on the inflation front, even if they prompt additional currency depreciation.

Most Europeans agree that the inadequate economic growth of the last five years bears a key responsibility for current unemployment. Many doubt, however, that higher growth can be brought to pass through European initiatives, unless preceded by changes in U.S. policies, particularly on the fiscal front. Cutting the U.S. budget deficit, so the argument runs, would allow an easier U.S. monetary policy. That would breed a decline in real interest rates worldwide, which in turn would boost Europe's own domestic investment. At the same time, lower U.S. interest rates could weaken the dollar. The associated terms-of-trade gain would then raise real disposable incomes and spur private consumption in Europe. Increases in investment and consumption would each benefit European employment.

This line of argument has several flaws. For example, the course of U.S. interest rates this year, especially their significant and ongoing decline since the summer, makes clear that their level need not be at the mercy of the U.S. budget situation. Nor is it evident that European monetary policy is strictly constrained by U.S. interest rates and the strength of the dollar. Earlier this year European interest rates neither rose in line with the major increases in U.S. interest rates nor came down as much once U.S. rates declined (see Chart 2). Though rate differentials may have been a potent influence in the dollar's run-up against European currencies between 1980 and 1982, those dif-

Chart 4

The mark-yen relationship



* 3-month Euro-DM deposit rate less 3-month Euroyen deposit rate.

Table 12

Europe's exports to the United States

derived from U.S. import data

	1983, as % of country GNP	*% change,* Jan-Oct 1984*
Western Europe	1.9	31.6
Germany	1.9	33.5
France	1.2	35.5
United Kingdom	2.7	13.8
Italy	1.5	47.3
Belgium	3.0	30.0
Denmark	1.9	35.7
Netherlands	2.3	36.4
Sweden	2.7	39.1

*From same period of 1983, in dollar terms.

ferentials — whether in nominal or real terms — provide little explanation for the accelerated weakness of European currencies this year (see Chart 3). Moreover, it is noteworthy that the mark has depreciated 36% against the yen since 1980, compared to its 41% depreciation against the dollar (see Chart 4). That cannot have been an interest rate phenomenon.

Altogether, it must be concluded that interest rates have less influence on currency trends than is commonly assumed. This implies that interest rate "decoupling" of Europe and the United States is a workable option, especially for Germany. The lowering of interest rates would conform with Europe's preferred path to economic recovery. What may be questioned, however, is the prevalent European conviction that lower interest rates can by themselves provide a sufficient tonic for investment to spur healthy economic growth and job creation.

European economies in a global context

As the U.S. economic expansion matures, there is growing anxiety about how European and world recovery is to be sustained at a pace sufficient to provide both rising living standards and a major reduction in unemployment.

Exports and investment have fueled the modest economic recovery in Europe since the end of the recession. Exports have been stimulated by currency depreciation and buoyant U.S. economic growth (see Table 12). Investment has been stimulated by the increased demand for exports. It also has been spurred by the desire to implement new technology and cut costs, especially for labor.

To buttress economic growth and increase employment in the face of a slowdown in U.S. demand, European governments need to take reflationary measures. Besides easier monetary policy, the European economic policy mix needs to shift toward easier fiscal policies. The achievement in reducing fiscal deficits over the past few years gives some countries, especially Germany and the United Kingdom, the leeway to pursue more expansionary policies. They can be successful, however, only if the labor market and other structural reforms that have been initiated since the second oil shock are pressed forward in the years ahead. Otherwise, the benefits of expansionary policies may be dissipated in real wage increases rather than job gains.

Given the valid concerns about the role of government and the size of the public sector, fiscal reflation in Europe should eschew increased government spending. Expansionary policies relying on supply-side tax cuts will serve not only to stimulate domestic demand but also to reinvigorate the private sector and improve economic efficiency. European governments increasingly recognize the need for tax cuts. They are a top priority of the British government, albeit within the context of an austere posture toward the budget deficit. Tax cuts are scheduled for 1985 in France. Germany is planning a program to cut taxes by DM 20 billion, 1% of GNP, between 1986 and 1988.

With the exception of Germany to some degree, no single country in Europe can assume an economic locomotive function on its own. France demonstrated in 1982 how a narrowly based expansion can be quickly derailed by deterioration in the external accounts. Europe as a whole, however, faces a lesser constraint, since most of the increase in each country's imports that would be occasioned by faster economic growth would be procured as exports of other European countries. Thus, a coordinated expansion across Europe, particularly in the bigger economies, is likely to have only a small effect on trade and current accounts in each individual country.

Nonetheless, in playing a constructively expansionary role in the global recovery Europe cannot expect to avoid deterioration of its current account position altogether. Besides, any reduction in the U.S. current account deficit will have to be matched by lower surpluses or higher deficits in Europe and Japan: the LDCs are unable to run much larger current account deficits in view of their heavy debt-service burdens and their continuing need for adjustment to financial realities. Thus, Europe and Japan will have to generate growth domestically and quit relying on the United States for export-led growth as in the past two years.

Statistical appendix

For key to data in tables see September 1984 issue.

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Information herein is from sources considered to be reliable but is furnished without responsibility on the part of Morgan Guaranty Trust Company.

Nominal effective exchange rates

Index numbers, 1980-82 average=100. Each index shows a currency's trade-weighted appreciation or depreciation measured against 15 other major currencies, using averages of daily noon spot exchange rates in New York and bilateral trade weights based on 1980 trade in manufactures. Annual figures are calendar year averages.

	United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Belgium	Neth-erlands	Spain	Swit-zerland	Den-mark	Norway	Swe-den
Pre-June 1970 parities	114.6	114.4	69.0	116.4	111.1	68.2	226.2	147.5	80.6	91.1	82.1	143.2	51.3	113.0	92.3	119.6
Smithsonian central rates	103.1	121.9	77.2	116.7	109.8	68.9	220.9	146.7	90.6	92.3	82.9	142.7	53.2	110.8	90.9	117.6
1980	90.7	100.4	95.5	96.0	106.5	100.0	108.4	99.8	99.4	105.9	100.2	106.5	95.4	105.1	98.2	103.9
1981	99.5	100.2	105.8	104.0	100.4	97.2	98.8	102.1	98.9	101.8	97.1	99.4	98.3	99.2	100.1	103.3
1982	109.8	99.4	98.6	100.1	93.1	102.8	92.8	98.1	101.7	92.3	102.7	94.1	106.3	95.7	101.7	92.8
1983	114.2	100.8	107.8	92.0	87.3	107.6	90.3	91.6	103.6	90.0	105.0	78.4	111.5	96.4	99.4	82.2
1983																
December	118.0	100.4	112.1	94.2	84.7	106.8	88.0	91.8	102.8	88.2	104.1	75.8	113.8	94.0	99.5	83.1
1984																
January	119.1	100.5	113.3	95.5	84.1	106.5	87.6	91.5	102.6	87.7	103.7	76.3	113.8	93.6	99.2	83.4
February	117.3	100.2	111.9	97.3	84.7	108.0	87.0	91.4	103.5	88.3	104.3	77.1	112.2	94.0	99.0	82.9
March	115.4	98.0	114.7	97.2	85.3	109.0	87.2	89.8	104.2	89.0	105.0	77.2	111.7	94.6	98.7	83.5
April	116.7	97.5	115.7	95.1	85.2	108.6	87.3	88.9	104.1	89.0	104.8	78.1	111.3	94.0	98.9	83.7
May	119.5	96.8	114.6	95.1	84.6	107.7	86.9	89.1	103.8	88.8	104.4	78.4	110.9	93.6	99.1	83.6
June	120.2	96.2	113.3	93.0	84.9	108.2	87.0	88.6	104.2	88.9	104.6	78.0	110.1	93.8	99.1	83.4
July	124.2	95.4	110.8	90.3	84.6	107.7	87.3	87.7	104.1	89.3	104.0	77.3	107.9	93.7	97.4	84.4
August	124.0	97.0	111.4	91.9	84.3	107.3	86.6	87.9	103.8	89.3	103.8	76.6	108.8	93.6	97.1	84.6
September	127.3	96.7	112.0	92.1	83.6	106.2	85.9	87.1	103.2	88.9	103.1	76.9	109.3	93.2	96.9	85.6
October	128.5	96.6	[illegible]	93.6	83.7	106.3	85.7	85.3	103.2	88.7	103.2	77.0	109.8	93.4	97.1	85.6
November	126.8	96.5	112.5	95.0	84.0	106.7	85.6	85.2	103.4	89.3	103.5	77.4	110.2	94.2	95.5	85.1
October 19	129.8	96.3	111.9	93.5	83.5	105.9	85.8	84.9	103.0	88.7	103.0	76.9	110.0	93.4	95.4	86.1
26	127.9	96.6	112.4	94.1	83.9	106.7	85.6	84.5	103.2	88.9	103.5	76.9	110.4	93.8	95.3	85.7
November 2	127.3	96.7	112.2	94.5	84.0	106.8	85.5	84.7	103.3	89.1	103.5	77.3	110.4	93.9	95.4	85.4
9	125.3	96.5	112.7	94.6	84.4	107.0	85.6	85.9	103.6	89.2	103.6	77.5	110.7	94.2	95.4	85.1
16	125.8	96.4	112.6	94.5	84.0	106.8	85.9	86.0	103.8	89.2	103.6	77.7	110.3	94.5	95.6	85.1
23	127.2	96.5	112.1	95.1	83.9	106.6	86.0	85.2	103.6	89.3	103.4	77.5	109.6	94.3	95.6	85.3
30	128.7	96.4	112.4	96.1	83.8	106.2	85.8	84.2	103.3	89.3	103.2	77.2	109.9	94.2	95.5	85.3
December 7	128.9	96.4	112.0	96.0	83.7	106.2	85.9	84.5	103.1	89.1	103.1	77.5	109.6	94.1	95.4	85.2

Real effective exchange rates

Index numbers, 1980-82 average=100. Each index is the corresponding nominal effective exchange rate adjusted for differential inflation in wholesale prices of nonfood manufactures. Underlying price data are partly estimated. Index revisions reflect revised price information or, less frequently, adoption of new price indices to measure inflation in one or more countries.

	United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Belgium	Neth-erlands	Spain	Swit-zerland	Den-mark	Norway	Swe-den
1980	89.4	99.6	103.0	93.0	102.2	103.5	103.5	99.9	100.2	107.5	99.9	100.9	98.7	103.5	96.6	101.2
1981	100.6	100.0	104.6	102.7	100.1	97.3	98.7	102.3	99.1	100.3	97.6	99.4	98.7	99.2	100.9	102.1
1982	109.9	100.4	92.3	104.3	97.7	99.2	97.8	97.9	100.7	92.3	102.5	99.8	102.6	97.3	102.5	96.7
1983	112.7	103.1	96.6	100.0	95.9	99.3	100.1	92.0	101.6	92.1	101.8	90.5	105.3	98.8	101.3	91.5
1983																
December	115.5	103.0	98.5	103.7	95.5	97.3	99.9	92.1	100.4	90.3	99.7	90.6	106.4	95.6	101.5	94.1
1984																
January	116.1	103.7	99.1	105.4	94.3	96.7	100.3	91.9	102.1	89.8	100.4	91.7	106.0	95.3	101.3	95.1
February	114.1	103.5	97.7	107.4	94.5	97.7	100.0	91.9	102.9	90.0	101.2	92.9	104.3	96.5	101.5	94.7
March	111.9	101.7	99.9	107.3	96.4	98.5	100.6	90.7	103.6	90.5	101.7	93.7	103.9	96.2	101.0	95.7
April	113.0	101.5	100.4	105.2	96.6	98.0	101.3	89.9	103.1	90.1	101.4	95.0	103.2	95.5	101.0	95.6
May	115.8	100.5	99.1	105.6	97.2	96.9	101.2	90.2	102.5	89.4	101.0	95.6	101.7	95.5	101.7	95.7
June	116.5	99.8	97.7	103.7	97.5	97.1	101.3	89.7	102.9	89.4	101.3	95.9	101.1	97.2	101.3	95.3
July	120.2	99.2	95.3	100.9	97.3	96.7	101.8	89.0	102.9	89.5	100.8	95.3	98.9	95.3	99.1	97.0
August	119.7	100.9	95.8	103.1	97.6	96.0	101.4	89.3	102.7	89.2	100.6	94.3	100.2	95.7	98.4	97.7
September	121.5	101.4	96.7	103.8	97.1	95.1	101.0	88.7	101.8	88.5	99.9	95.5	100.3	97.1	99.4	98.9
October	123.6	100.6	96.0	105.5	97.4	94.9	100.8	86.9	101.5	87.9	100.0	95.7	100.6	97.3	99.2	99.2
November	121.6	100.6	96.3	107.5	98.2	95.2	101.0	87.0	101.7	88.2	100.3	96.6	101.0	98.5	97.5	98.9

Eurocurrency deposit rates

prime banks' bid rates, at or near end of month

		1981	1982	1983	1984						
		Dec	Dec	Dec	May	Jun	Jul	Aug	Sep	Oct	Nov
Eurodollar	overnight	12.87	9.25	9.50	10.38	11.25	11.75	11.50	11.63	9.81	8.69
	one month	13.31	9.12	9.69	11.06	11.75	11.50	11.69	11.00	9.75	8.81
	three months	13.75	9.19	9.81	11.75	12.13	11.81	11.88	11.38	10.00	9.06
	six months	14.81	9.50	10.06	12.50	12.63	12.25	12.13	11.56	10.25	9.50
	twelve months	14.75	9.62	10.37	13.63	13.50	12.75	12.63	11.81	10.81	10.06
Euro-Canadian dollar	one month	15.37	10.00	9.12	10.69	11.75	12.44	12.13	11.88	11.38	10.88
	three months	15.37	10.00	9.50	11.38	12.13	12.75	12.13	12.06	11.38	10.50
	six months	16.37	10.13	9.75	12.31	12.69	13.06	12.38	12.00	11.56	10.56
	twelve months	16.37	10.25	10.00	13.38	13.50	13.25	12.63	12.06	11.63	10.56
Euro-French franc	one month	15.75	23.00	12.12	12.00	11.81	11.38	10.88	10.94	10.38	10.69
	three months	17.00	24.00	12.19	13.19	12.31	11.75	11.88	11.25	10.69	10.88
	six months	18.00	22.00	12.31	14.19	13.25	12.69	11.19	11.69	11.31	11.19
	twelve months	18.25	19.75	12.62	14.94	14.56	13.63	12.69	12.13	11.75	11.63
Euromark	one month	10.44	5.87	5.25	5.63	5.56	5.25	5.31	5.44	5.56	5.56
	three months	10.50	5.87	5.87	5.94	5.88	5.75	5.50	5.75	5.81	5.56
	six months	10.56	5.94	6.12	6.25	6.19	6.13	5.88	5.94	5.81	5.63
	twelve months	10.25	6.00	6.37	6.81	6.75	6.56	6.19	6.00	5.88	5.69
Euro-Dutch guilder	one month	10.75	5.12	5.81	5.94	5.94	6.13	6.06	6.00	5.81	5.63
	three months	10.75	5.19	6.00	6.13	6.13	6.38	6.25	6.25	6.00	5.81
	six months	10.75	5.38	6.25	6.88	6.44	6.69	6.56	6.38	6.13	5.88
	twelve months	10.75	5.63	6.37	6.94	6.94	6.88	6.81	6.50	6.25	6.00
Euro-Swiss franc	one month	8.87	2.81	3.37	3.94	4.19	4.81	4.50	4.69	4.63	5.13
	three months	9.25	3.25	3.75	4.06	4.44	4.88	4.69	5.13	5.06	4.94
	six months	9.25	3.44	3.94	4.44	4.56	5.06	4.81	5.19	5.06	4.94
	twelve months	8.50	3.44	3.94	4.75	4.75	5.06	5.00	5.06	5.00	4.94
Eurosterling	one month	15.37	10.56	9.12	8.94	8.81	12.25	10.75	10.69	10.63	9.69
	three months	15.69	10.44	9.31	9.81	9.44	12.25	10.69	10.69	10.50	9.69
	six months	15.69	10.31	9.50	10.44	9.94	12.19	10.63	10.69	10.44	9.81
	twelve months	15.37	10.31	9.81	10.94	10.56	12.13	10.75	10.75	10.56	10.00
Euroyen	one month	6.12	6.75	6.25	6.38	6.00	6.13	6.38	6.13	6.13	6.50
	three months	6.12	6.75	6.31	6.38	6.19	6.31	6.31	6.31	6.31	6.31
	six months	6.87	7.10	6.38	6.44	6.31	6.31	6.31	6.31	6.31	6.31
	twelve months	6.87	6.81	6.44	6.56	6.50	6.50	6.50	6.44	6.31	6.31
European currency unit	one month	14.63	12.44	8.63	9.00	9.00	9.31	9.06	9.63	9.50	9.19
	three months	14.75	12.31	9.06	9.38	9.31	9.63	9.31	9.81	9.69	9.31
	six months	15.00	12.00	9.44	9.88	9.81	10.06	9.94	10.06	9.81	9.38
	twelve months	14.56	11.19	9.63	10.25	10.25	10.31	10.25	10.25	10.00	9.69

International bond issues – by currency

new issues with a maturity of three years or more, publicly offered or privately placed in the period
millions of dollars

	1981	1982	1983	1984			Jan-Nov	
				Sepr	Octr	Nov	1984	1983
Eurobonds	**31 616**	**51 645**	**48 501**	**7 191**	**11 527**	**8 307**	**73 495**	**47 199**
U.S. dollar	26 830	43 959	38 428	5 939	9 564	5 628	58 724	37 643
Canadian dollar	634	1 201	1 039	161	365	320	1 718	983
German mark	1 277	2 588	3 817	346	635	539	4 388	3 617
British pound	501	748	1 947	440	537	670	3 758	1 839
Japanese yen	368	374	212	61	—	490	899	212
European composite units	309	1 980	2 019	171	270	516	2 834	1 957
Other	1 697	795	1 039	73	156	144	1 174	948
Foreign bonds	**21 369**	**26 397**	**27 822**	**2 149**	**2 628**	**2 612**	**26 252**	**25 845**
U.S. dollar	7 552	5 946	4 545	250	900	200	4 887	3 710
German mark	1 310	2 952	2 671	190	212	268	1 889	2 635
Dutch guilder	481	956	1 053	73	159	89	1 069	1 053
British pound	746	1 214	811	101	242	31	1 292	768
Swiss franc	8 285	11 432	14 299	1 174	704	985	12 243	13 537
Japanese yen	2 457	3 418	3 772	290	397	945	4 403	3 475
Other	538	479	671	71	14	94	469	667
Total	**52 985**	**78 042**	**76 323**	**9 340**	**14 155**	**10 919**	**99 747**	**73 044**

International bond issues — by country of borrower

new issues with a maturity of three years or more, publicly offered or privately placed in the period
millions of dollars

	1981	*1982*	*1983*	*1984*			*Jan-Nov*	
				Sepr	*Octr*	*Nov*	*1964*	*1983*
Industrial countries	**40 361**	**63 062**	**60 303**	**8 499**	**12 293**	**9 178**	**86 410**	**57 658**
Australia	991	2 250	2 529	152	567	228	2 521	2 314
Austria	1 557	1 668	1 290	95	100	94	1 951	1 165
Belgium	527	211	1 116	479	80	400	1 709	1 016
Canada	10 648	11 979	7 487	883	613	210	6 150	6 695
Denmark	695	1 269	1 719	233	193	64	3 261	1 647
Finland	672	815	866	44	279	16	1 350	862
France	3 156	8 386	6 461	586	661	504	7 015	6 211
Germany	279	1 101	3 095	—	321	125	1 872	3 016
Ireland	517	625	959	49	136	124	873	959
Italy	1 108	2 214	1 565	50	1 018	649	3 213	1 529
Japan	6 928	8 397	13 977	877	1 121	874	16 393	13 577
Netherlands	630	894	935	110	86	231	1 104	870
New Zealand	1 107	1 375	645	120	813	431	1 983	645
Norway	530	832	624	216	165	49	990	598
Portugal	30	206	76	60	20	—	325	76
South Africa	92	374	548	30	108	119	960	443
Spain	444	747	1 470	30	593	72	1 467	1 406
Sweden	2 050	2 479	3 809	164	739	420	6 237	3 724
United Kingdom	1 408	1 201	1 398	220	1 239	266	4 061	1 348
United States	6 770	14 538	7 325	3 789	3 312	4 125	21 054	7 235
*Other**	722	1 501	2 409	312	129	177	1 921	2 322
Developing countries	**4 886**	**5 003**	**2 535**	**80**	**301**	**351**	**2 543**	**2 514**
Latin American countries	**3 658**	**2 480**	**71**	—	**20**	**82**	**198**	**71**
Argentina	195	—	—	—	—	—	—	—
Brazil	60	91	—	—	—	—	—	—
Chile	30	—	—	—	—	82	82	—
Colombia	20	35	—	—	—	—	—	—
Mexico	3 012	1 919	—	—	—	—	19	—
Panama	25	—	21	—	—	—	—	21
Venezuela	291	385	—	—	—	—	—	—
*Other***	25	50	50	—	20	—	97	50
Asian countries	**1 068**	**2 075**	**2 252**	**80**	**281**	**269**	**2 255**	**2 231**
Hong Kong	70	40	50	—	—	75	75	50
India	271	250	60	—	20	25	237	60
Indonesia	97	412	328	—	—	—	50	328
Korea	323	172	556	60	261	159	1 011	535
Malaysia	—	807	883	—	—	—	540	883
Philippines	99	50	—	—	—	—	—	—
Singapore	30	125	70	20	—	10	30	70
Thailand	93	63	265	—	—	—	270	265
Other	85	156	40	—	—	—	42	40
Middle Eastern and African countries	**160**	**448**	**212**	—	—	—	**90**	**212**
Egypt	—	75	—	—	—	—	40	—
Israel	117	200	135	—	—	—	—	135
United Arab Emirates	—	20	—	—	—	—	—	—
Other	43	153	77	—	—	—	50	77
Centrally planned countries	**75**	**65**	**75**	—	**66**	—	**116**	**75**
China	—	65	50	—	—	—	—	50
Hungary	20	—	—	—	41	—	41	—
*Other****	55	—	25	—	25	—	75	25
International organizations****	**7 163**	**9 912**	**13 410**	**761**	**1 495**	**1 390**	**10 538**	**12 797**
Total	**52 985**	**78 042**	**76 323**	**9 340**	**14 155**	**10 919**	**99 747**	**73 044**

*Includes multinational organizations. **Includes unallocated. ***Includes COMECON institutions. ****Includes regional development organizations.

International bond yields

average yield of several actively traded, high quality issues with a maturity of 7 to 12 years
at or near end of month

	1982	*1983*	*1984*							
	Decr	*Decr*	*Aprr*	*Mayr*	*Junr*	*Julr*	*Augr*	*Sepr*	*Oct*	*Nov*
United States companies										
Eurodollar	11.16	11.59	12.53	13.33	13.27	12.70	11.97	12.09	11.85	11.17
Euromark	7.24	7.34	7.29	7.55	7.48	7.74	7.40	7.30	7.19	7.08
Swiss franc	5.70	5.83	5.63	5.94	5.78	5.76	5.69	5.72	5.78	5.70
European governments										
Eurodollar	12.53	12.65	13.27	14.18	14.14	13.61	13.03	12.92	12.49	12.00
Euromark	8.10	8.12	7.88	8.03	8.07	8.31	7.94	7.78	7.61	7.43
Swiss franc	5.40	5.63	5.39	5.63	5.59	5.47	5.38	5.39	5.40	5.43
European currency unit	n.a.	11.77	11.49	11.40	11.63	11.60	11.58	11.43	11.00	10.79

Eurocurrency bank credits — by country of borrower

credits with a maturity of one year or more, publicly announced in period
millions of dollars

	1981	*1982*	*1983*	*1984*			*Jan-Nov*	
				Sep	*Oct^{r}*	*Nov*	*1984*	*1983*
Industrial countries	**86 022**	**42 571**	**38 742**	**2 753**	**3 633**	**4 200**	**69 658**	**35 667**
Australia	1 680	4 721	2 924	350	698	—	2 129	2 389
Belgium	360	1 172	883	—	—	—	—	883
Canada	4 112	3 838	967	—	—	—	2 021	967
Denmark	1 661	789	1 586	—	104	—	1 147	1 586
Finland	463	631	283	75	—	67	157	228
France	3 912	5 703	1 700	—	47	—	2 702	1 700
Greece	1 039	770	1 085	—	300	—	945	1 085
Ireland	1 361	401	764	307	—	—	378	621
Italy	6 030	3 757	2 980	21	455	839	3 018	2 914
Norway	713	1 769	1 236	—	87	—	111	610
Portugal	1 590	1 388	913	108	54	—	857	800
South Africa	287	1 479	752	50	—	—	410	752
Spain	3 242	1 849	3 041	—	249	71	2 231	2 673
Sweden	1 867	649	3 188	84	115	300	4 918	3 188
United Kingdom	747	1 635	1 328	335	410	246	3 872	1 269
United States	54 784	6 516	12 948	1 083	655	1 475	40 166	12 040
Yugoslavia	684	719	615	—	40	—	101	615
*Other**	1 490	4 785	1 549	340	419	1 200	4 495	1 347
Developing countries	**45 264**	**41 519**	**32 937**	**1 972**	**1 234**	**2 704**	**27 462**	**32 754**
Latin American countries	**30 152**	**26 719**	**15 406**	**455**	**250**	**50**	**13 020**	**15 361**
Argentina	2 534	1 565	1 750	—	—	—	—	1 750
Brazil	5 751	5 716	4 475	280	100	—	7 008	4 475
Chile	2 204	1 194	1 319	—	—	—	784	1 319
Colombia	1 030	741	549	160	—	—	564	549
Ecuador	934	815	431	—	—	—	80	431
Mexico	7 530	7 953	5 138	15	—	—	3 885	5 138
Peru	1 407	1 069	500	—	—	—	10	500
Venezuela	7 559	6 799	237	—	—	—	—	237
*Other***	1 203	867	1 007	—	150	50	689	962
Asian countries	**10 288**	**8 403**	**8 828**	**1 408**	**929**	**1 457**	**9 964**	**8 728**
India	377	284	809	—	309	—	614	809
Indonesia	725	1 250	1 467	12	24	27	1 376	1 452
Korea	2 824	2 923	3 250	1 030	296	414	4 313	3 230
Malaysia	1 725	1 909	950	100	—	—	784	920
Pakistan	350	455	365	—	—	91	191	365
Philippines	1 257	635	819	—	—	925	925	819
Thailand	692	268	349	85	300	—	943	314
Other	2 338	679	819	181	—	—	818	819
Middle Eastern and African countries	**4 824**	**6 397**	**8 703**	**109**	**55**	**1 197**	**4 478**	**8 665**
Algeria	—	26	1 934	—	—	500	700	1 934
Egypt	63	353	335	—	25	61	130	335
Morocco	774	326	226	—	—	—	115	226
Nigeria	1 802	2 042	1 775	—	—	—	—	1 775
Turkey	100	277	1 106	16	25	500	1 241	1 106
United Arab Emirates	363	93	876	—	—	—	39	876
Other	1 722	3 280	2 451	93	5	136	2 253	2 413
Centrally planned countries	**1 791**	**765**	**1 212**	**526**	**166**	**433**	**3 320**	**1 012**
East Germany	470	8	392	—	40	433	563	392
Hungary	550	340	683	250	—	—	1 127	483
Soviet Union	25	374	68	276	122	—	926	68
*Other****	746	43	69	—	4	—	704	69
International organizations****	**302**	**160**	**1 321**	—	**250**	—	**250**	**1 321**
Total	**133 379**	**85 015**	**74 212**	**5 251**	**5 283**	**7 337**	**100 690**	**70 754**

*Includes multinational organizations. **Includes unallocated. ***Includes COMECON institutions. ****Includes regional development organizations.

Eurocurrency market size

measured by foreign currency liabilities
at end of period, billions of dollars

	1977^{r}	*1978^{r}*	*1979^{r}*	*1980^{r}*	*1981^{r}*	*1982^{r}*	*1983*		*1984*	
							Sep^{r}	*Dec^{r}*	*Mar^{r}*	*Jun*
Gross market size	748	946	1 245	1 538	1 814	2 038	2 101	2 148	2 224	2 222
Nonbanks	150	187	219	274	353	397	415	436	455	451
Official monetary institutions	76	86	122	129	114	92	87	89	87	89
Other banks	522	673	904	1 135	1 347	1 549	1 676	1 623	1 682	1 682
Eurodollars as % of gross	75	73	72	74	77	79	80	80	79	80

Central bank discount rates

at or near end of month

	1981	1982	1983	1984					Current	
	Dec	Dec	Dec	Jul	Aug	Sep	Oct	Nov	Dec 10 1984	effective since
United States	12.00	8.50	8.50	9.00	9.00	9.00	9.00	8.50	9.00	Apr 9, 84
Canada	14.66	10.05	9.86	12.96	12.39	12.28	11.71	10.75	10.71	Dec 6, 84
Austria	6.75	4.75	3.75	4.50	4.50	4.50	4.50	4.50	4.50	Jun 28, 84
Belgium	15.00	11.50	10.00	11.00	11.00	11.00	11.00	11.00	11.00	Feb 16, 84
Denmark	11.00	10.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	Oct 27, 83
Finland	9.25	8.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	Jul 1, 83
France	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9 50	Aug 31, 77
Germany	7.50	5.00	4.00	4.50	4.50	4.50	4.50	4.50	4.50	Jun 29, 84
Ireland	17.15	14.35	11.50	13.00	13.00	13.00	13.00	14.00	14.00	Nov 27, 84
Italy	19 00	18.00	17.00	15.50	15.50	16.50	16.50	16.50	16.50	Sep 4, 84
Netherlands	9.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	Sep 9, 83
Norway	9.00	9.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	Jun 6, 83
Portugal	18.00	19.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00	Aug 10, 83
Spain	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	Jul 26, 77
Sweden	11.00	10.00	8.50	9.50	9.50	9.50	9.50	9.50	9.50	Jun 29, 84
Switzerland	6.00	4.50	4.00	4.00	4.00	4.00	4.00	4.00	4.00	Mar 16, 83
United Kingdom	14.37	10.00	9.00	11.88	10.38	10.38	10.38	9.36	9.38	Nov 27, 84
Japan	5.50	5.50	5.00	5.00	5.00	5.00	5.00	5.00	5.00	Oct 22, 83
New Zealand	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	Jul, 81
South Africa	13.50	15.45	18.50	20.50	22.25	22.25	22.25	21.25	21.25	Nov,84
Argentina	98.50	128.54	183.75	199.94	199.94	199.94	221.31	221.31	221.31	Jul 1, 84
Korea	10.50	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	Mar 29, 82
Philippines	6.69	8.30	8.05	10.97	11.52	11.36	10.93	n.a.	10.93	Oct, 84
Singapore	9.50	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	Feb 19, 82
Thailand	14.50	12.50	13.00	13.00	13.00	13.00	13.00	13.00	13.00	Dec 9, 83
Venezuela	14.00	13.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	May 18, 83

Day-to-day money rates

monthly averages

	1981	1982	1983	1984							
	Dec	Dec	Dec	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
United States	12.37	8.95	9.47	10.29	10.32	11.06	11.23	11.64	11.30	9.99	9.52
Canada	14.53	10.63	8.76	9.72	9.76	10.75	11.41	12.25	12.13	11.95	11.22
Austria	7.50	6.00	5.75	6.38	6.50	6.50	6.50	6.63	6.63	6.75	7.25
Belgium	12.78	9.43	8.65	11.37	9.13	9.80	10.22	10.72	8.79	9.57	10.24
Finland	11.30	11.50	16.70	16.77	16.53	16.80	16.53	16.50	16.10	15.75	15.48
France	15.46	12.88	12.27	12.15	12.04	12.12	11.45	11.43	11.36	11.04	11.18
Germany	10.65	6.07	5.60	5.53	5.53	5.53	5.57	5.53	5.56	5.61	5.52
Ireland	16.88	14.54	12.19	12.12	11.75	10.94	12.00	11.88	12.38	13.50	14.25
Italy	20.63	19.00	17.88	17.25	16.93	16.75	16.75	16.63	17.34	17.38	17.25
Netherlands	10.67	5.31	5.84	5.79	5.62	5.85	5.98	5.85	5.84	5.90	5.57
Norway	18.60	11.00	13.00	13.00	13.00	12.50	12.00	12.50	13.00	13.00	13.00
Spain	18.73	20.30	16.41	11.54	11.93	11.91	11.15	12.69	12.51	10.83	12.90
Sweden	13.82	8.63	11.48	9.65	11.50	13.50	12.95	13.50	13.50	12.50	10.95
Switzerland	3.38	1.25	1.88	2.00	2.25	2.13	2.88	2.00	2.50	2.00	1.50
United Kingdom	9.13	6.70	7.78	6.25	3.25	5.00	8.63	10.58	7.28	7.38	7.55
Australia	12 84	11.04	4.56	13.45	13.30	11.44	11.34	10.94	10.56	10.61	10.92
Japan	6.70	6.92	6.44	5.88	5.74	5.91	6.03	6.11	6.32	6.11	6.13
South Africa	12.75	14.15	16.06	17.25	17.25	17.25	18.06	20.30	22.63	21.50	21.50
Argentina	84.93	155.32	178.30	161.88	161.88	161.88	194.56	194.56	194.56	215.99	215.99
Brazil	103.74	150.42	184.69	217.98	198.78	226.75	283.79	242.73	285.03	328.87	n.a.
Hong Kong	10.75	9.13	13.90	9.00	11.00	13.00	23.40	11.30	11.99	8.47	7.23
Korea	14.40	13.84	11.40	11.70	11.90	11.90	11.70	11.70	11.20	11.30	10.90
Philippines	14.70	16.12	31.18	17.93	33.17	40.17	39.79	29.13	34.29	40.90	n.a.
Singapore	3.96	11.45	7.05	8.13	7.82	6.80	7.67	8.05	8.16	7.54	6.29

Treasury bill rates

bond equivalent yields, at or near end of month

	1981	1982	1983	1984							
	Dec	Dec	Dec	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
United States	11.90	8.15	9.28	10.02	10.13	10.29	10.67	11.06	10.64	9.69	8.71
Canada	14.41	9.80	9.71	10.59	11.29	12.11	12.73	12.13	12.02	11.46	10.50
Belgium	16.00	12.25	10.85	11.75	11.75	11.75	11.75	11.50	11.00	11.00	10.75
Ireland	17.35	14.70	11.63	12.35	12.10	12.08	13.23	12.81	12.71	12.90	14.80
Italy	21.36	19.11	16.95	15.45	14.99	14.85	14.99	14.99	15.40	n.a.	n.a.
Netherlands	9.75	5.63	5.63	5.38	5.63	5.86	5.75	5.75	5.50	5.63	5.63
Spain	n.a.	15.28	14.46	12.64	12.04	11.17	10.30	9.44	8.91	n.a.	n.a.
Sweden	n.a.	12.90	11.75	10.99	11.83	14.20	14.12	14.06	13.80	11.83	12.04
United Kingdom	15.31	9.90	9.08	8.59	9.99	9.08	11.77	10.22	10.39	10.06	9.34
Australia	13.27	9.39	8.54	11.89	11.81	11.24	10.60	9.74	9.60	10.75	10.98
Japan	5.42	5.42	4.91	4.91	4.91	4.91	4.91	4.91	4.91	4.91	4.91
New Zealand	11.25	11.25	7.80	7.80	7.80	7.80	7.80	7.80	7.80	13.50	13.50
South Africa	14.55	14.62	18.43	18.64	18.64	18.44	19.69	23.02	23.02	23.03	21.82
Brazil	92.62	115.40	179.15	179.15	179.15	179.15	179.15	179.15	269.00	273.03	n.a.
Mexico	33.23	57.44	53.78	46.63	51.56	50.55	50.31	50.13	n.a.	n.a.	n.a.
Philippines	13.22	14.54	15.99	17.61	20.81	28.53	33.34	37.51	42.56	46.30	n.a.
Singapore	3.03	2.74	2.59	2.87	3.00	3.01	3.00	3.01	3.01	3.01	2.85

Representative money market rates

bond-equivalent yields on major short-term (mostly 3-4 month) money market instruments other than Treasury bills, at or near end of month

	1981	1982	1983	1984							
	Dec	Dec	Dec	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
United States	12.78	8.81	9.75	10.50	10.94	11.63	11.36	11.58	10.94	9.59	8.84
Canada	15.25	9.95	9.87	10.75	11.55	12.50	13.05	12.30	12.25	11.80	10.80
Belgium	16.00	12.35	11.00	11.90	11.90	11.90	11.90	11.50	11.00	11.00	10.75
France	15.25	12.75	12.19	12.31	12.25	12.06	11.63	11.18	10.94	10.18	10.56
Germany	10.50	6.20	6.30	5.70	6.25	6.10	6.05	5.90	6.05	6.05	5.80
Ireland	18.50	15.75	12.19	12.88	12.75	12.50	13.75	13.25	13.06	13.75	15.38
Italy	21.00	19.00	17.88	17.25	16.75	16.63	16.63	16.63	17.25	17.25	17.25
Netherlands	11.00	5.25	6.00	5.88	6.13	6.19	6.44	6.38	6.19	6.06	5.94
Portugal	13.80	15.05	24.11	24.04	24.00	24.13	24.65	24.53	24.60	24.52	n.a.
Spain	15.52	16.55	18.48	15.07	14.66	13.45	12.91	13.19	12.86	12.54	12.95
Switzerland	10.12	3.88	3.87	3.88	4.25	4.50	4.88	5.38	5.38	5.25	5.00
United Kingdom	15.69	10.50	9.31	8.81	9.75	9.44	12.31	10.69	10.69	10.88	9.69
Australia	16.00	10.65	9.50	14.20	13.55	12.70	12.50	11.10	11.30	11.30	11.75
Japan	6.30	6.80	6.42	6.20	6.35	6.32	6.33	6.32	6.32	6.30	6.30
New Zealand	16.05	16.75	12.10	15.00	17.00	17.00	16.50	15.25	16.75	16.25	15.25
South Africa	15.47	15.26	19.12	19.07	18.00	18.74	20.78	23.39	23.56	23.56	22.11
Chile	34.54	71.44	22.42	18.16	18.16	18.16	19.56	18.16	39.29	52.87	56.45
Hong Kong	14.18	10.13	12.84	9.93	12.38	13.13	17.06	12.83	12.78	10.13	8.76
Indonesia	14.48	18.50	19.50	18.50	19.00	20.00	21.00	21.00	21.00	21.00	20.00
Korea	15.69	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
Malaysia	9.50	8.50	9.80	9.10	9.20	9.70	10.20	10.50	10.30	15.00	10.00
Philippines	17.70	15.96	15.61	15.83	26.51	17.93	19.55	27.32	19.54	31.23	n.a.
Singapore	7.81	8.69	8.44	8.63	9.13	9.00	9.06	9.03	8.81	7.38	6.69
Taiwan	10.94	9.94	7.65	7.31	6.15	7.77	7.27	6.62	7.27	5.17	6.17
Thailand	14.29	12.25	16.00	13.50	14.00	13.50	13.50	13.50	14.50	14.00	12.00

Commercial bank deposit rates

at or near end of month

	1981	1982	1983	1984							
	Dec	Dec	Dec	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
United States	12.62	8.25	9.70	10.50	11.50	11.70	11.38	11.58	10.95	9.95	8.85
Canada	15.20	9.85	9.82	10.70	11.50	12.45	13.00	12.25	12.20	11.75	10.75
Austria	9.63	6.25	6.50	6.56	6.88	6.88	6 88	6.94	7.06	7.38	7.63
Belgium	15.50	12.25	11.25	11.50	11.88	12.50	11.63	11.25	10.88	10.75	10.63
Denmark	10.00	9.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Finland	5.00	4.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25
France	9.16	8.24	7.66	7.76	7.55	7.55	7.50	7.30	7.30	7.08	7.14
Germany	9.50	6.00	5.90	5.35	5.65	5.60	5.55	5.40	5.30	5.40	5.30
Ireland	18.38	15.25	11.75	12 50	12.50	12.25	13.13	12.75	12.75	13.25	14.75
Italy	13.25	13.25	13.25	13.25	11.64	11.64	11.64	11.64	11.64	11.64	11.64
Netherlands	11.00	5.38	6.13	5.75	6.00	6.13	6.31	6.13	6.13	6.00	5.81
Norway	12.75	13.50	12.75	12.75	12.50	12.50	12.25	12.25	12.75	12.75	12.75
Portugal	14.00	15.00	21.50	21.50	21.50	28.00	28.00	28.00	28.00	28.00	28.00
Spain	11.78	12 53	12.62	12.64	12.49	12.75	12.50	12.38	12.18	11.76	n.a.
Sweden	12.65	12.15	11.70	10.65	11.25	13.65	13.70	13.55	13.45	11.50	11.50
Switzerland	8.75	3.00	3.50	3 00	3.25	3.25	4.25	4.88	4.88	4.75	4.63
United Kingdom	15.69	10.31	9.31	8.91	9.94	9.44	12.25	10.59	10.63	10.44	9.75
Australia	15.65	10.20	10.40	13.36	13.43	12.80	12.28	10.85	10.68	11.22	11.46
Japan	6.50	7.00	6.50	6.35	6.50	6.45	6 47	6.46	6.42	6.42	6.43
New Zealand	15.50	16.50	11.50	14.75	16.50	15.00	15.00	15.50	15.25	15.00	15.50
South Africa	14.75	15.25	20.13	18.88	18.78	18.65	20.50	23.25	23.50	23.58	22.00
Argentina	86.76	103.42	176.41	158.17	158.17	158.17	188.58	188.58	270.00	320.00	285.00
Brazil	110.05	21.00	23.00	19.00	22.00	22.00	20.00	21.00	27.00	26.00	n.a.
Chile	36 87	57.72	22.28	18.16	18.16	18.16	19.56	18.16	15.39	58.81	66.31
Hong Kong	12.50	7.50	9.00	8.00	9.50	12.50	12.50	9.50	9.50	8.00	7.50
Korea	14.40	7.60	7.60	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Malaysia	10.00	8.40	7.75	7.83	8.70	8.83	8.88	8.95	9.37	10.08	10.02
Mexico	31.82	52.54	54.70	47.30	49.00	49.00	49.00	48.35	n.a.	n.a.	n.a.
Philippines	13.35	14.10	14.96	15.30	15.92	20.83	19.92	20.63	23.36	29.37	n.a.
Singapore	7.50	8.25	7.44	8.01	8.38	8.19	8.19	8.19	8.19	7.01	6.19
Taiwan	10.75	7.50	7.00	7.00	6.75	6.75	6.75	6.75	6.75	6.75	6.50
Thailand	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Venezuela	14.75	15.50	12.00	11.50	12.00	12.00	12.50	12.50	12.00	13.00	13.00

Domestic government bond yields

long-term issues, at or near end of month

	1981	1982	1983	1984							
	Dec	Dec	Dec	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
United States	14.33	10.61	12.00	12.79	13.58	13.75	12.97	12.69	12.32	11.86	11.64
Canada	15.27	11.69	12.02	13.31	13.93	13.81	13.41	12.89	12.63	12.18	11.81
Austria	10.37	8.81	8.02	7.94	7.99	8.06	8.09	8.10	8.09	8.10	8.07
Belgium	13.99	12.66	11.89	12.08	12.19	12.13	12.05	11.82	11.85	11.74	11.85
Denmark	20.91	20.14	12.96	14.27	15.20	15.54	15.33	15.17	15.30	14.63	14.92
Finland	10.98	10.64	11.16	10.80	11.20	11.29	11.35	10.83	10.87	10.85	10.84
France	16.44	15.40	13.96	13.81	13.62	13.99	13.91	13.58	13.05	11.92	12.36
Germany	9.71	7.90	8.38	8.18	8.29	8.25	8.27	7.97	7.83	7.53	7.20
Ireland	18.28	14.54	14.25	14.14	14.49	14.58	14.89	14.95	14.98	14.99	15.25
Italy	21.39	19.70	17.69	15.74	15.71	15.47	15.12	15.22	15.58	n.a.	n.a.
Netherlands	11.28	8.16	8.58	8.45	8.52	8.68	8.69	8.50	8.26	7.94	7.65
Norway	12.37	13.32	12.50	12.25	12.00	12.00	12.00	12.00	12.00	12.00	12.00
Portugal	17.39	16.63	22.11	22.37	21.82	21.90	21.19	20.69	21.05	n.a.	n.a.
Spain	16.20	15.92	18.71	18 64	18 69	18.18	17.66	17.14	16.66	n.a.	n.a.
Sweden	12.80	13.01	12.30	11.65	12.60	14.01	14.19	13.70	12.98	12.34	12.16
Switzerland	5.40	4.22	4.54	4.64	4.77	4.69	4.66	4.58	4.81	4.89	4.77
United Kingdom	15.02	10.62	9.94	10.16	10.73	10.81	11.17	10.43	10.18	10.19	9.96
Australia	15.00	13.00	13.65	14.00	14.10	14.00	13.30	13.10	13.50	13.30	13.30
Japan	8.11	7.96	7.45	7.30	7.60	7.50	7.47	7.45	7.37	7.11	6.61
New Zealand	12.55	12.84	10.50	8.97	8.50	10.06	10.25	15.03	15.31	16.60	16.30
South Africa	13.33	11.31	13.64	14.46	14.86	14.72	15.43	16.04	16.44	16.80	15.90
Philippines	13.01	13.64	14.47	18.47	18.45	19.04	12.19	20.59	38.67	27.31	n.a.
Venezuela	12.50	15.00	13.50	13.50	14.00	14.00	14.00	14.50	14.00	14.50	14.50

Commercial bank lending rates to prime borrowers

at or near end of month

	1981	1982	1983	1984							
	Dec	Dec	Dec	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
United States	15.75	11.50	11.00	12.00	12.50	13.00	13.00	13.00	12.75	12.00	11.25
Canada	16.50	12.50	11.00	11.50	12.00	12.50	13.50	13.00	13.00	12.50	12.00
Austria	13.50	11.75	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25
Belgium	18.00	15.50	13.75	14.75	14.75	14.75	14.75	14.25	14.25	14.00	14.00
Denmark	15.00	14.00	10.00	10.00	10.00	10.00	10.00	10 00	10.00	10.00	10.50
Finland	9.84	8.95	10.18	10.42	10.43	10.48	10.48	10.49	10.54	10.52	n.a.
France	14.00	12.25	12.25	12.25	12.25	12.25	12.25	12.00	12.00	12 00	12.00
Germany	13.00	8.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75
Ireland	17.25	16.50	13.75	13.75	13.75	13.75	13.75	13.75	13.75	13.75	13.75
Italy	22.50	20.75	18.75	17.50	17.00	17.00	17.00	17.00	18.00	18.00	18.00
Netherlands	12.00	6.25	7.00	6.50	6.50	6.50	6.75	6.75	6.50	6.50	6.50
Norway	13.75	14.50	13.50	13.30	12.75	13.00	12.75	12.50	13.00	13.25	13.00
Portugal	20.50	23.50	30.00	30.00	29.00	29.00	29.00	29.00	29.00	29.00	29.00
Spain	17.04	19.00	20.85	17.96	17.55	16.19	15.49	15.27	14.36	14.11	14.29
Sweden	15.00	15.00	13.50	13.50	13.50	14.50	14.50	14.50	14.50	14.50	14.50
Switzerland	8.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
United Kingdom	14.50	10.00	9.00	8.50	9.00	9.25	12.00	10.50	10.50	10.50	9.50
Australia	15.75	15.00	12.75	15.50	15.00	14.75	14.50	14 00	13.00	13.00	13.00
Japan	6.95	6.28	5.89	5.75	5.74	5.73	5.72	5.73	5.73	5.72	5.72
New Zealand	13.00	13.00	11.00	11.00	11.00	11.00	11.00	12 50	12.50	13.50	14.00
South Africa	17.00	18.00	20.00	20.50	20.50	20.50	22.00	25.00	25.00	25.00	23.50
Argentina	92.60	109.50	188.58	170.33	170.33	170.33	206.83	206.83	280.00	330.00	295.00
Brazil	152.40	23.81	24.00	23.00	26.00	26.00	22.50	23.50	32.00	30.00	n.a.
Chile	61.43	85.19	35.11	34.35	33.04	32.30	32.30	30.38	35.58	78.75	95.33
Hong Kong	16.00	10.50	13.50	12.00	13.75	17.00	17.00	14.00	14.00	12.00	11.50
Indonesia	19.25	22.00	19.75	20.75	21.00	20.75	21.25	22.75	31.50	26 00	23.50
Korea	16.50	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Malaysia	12.00	12.50	11.00	11.00	11.00	11.50	11.50	11.50	11.50	12.00	12.00
Mexico	31.81	46.12	56.44	51.10	50.12	50.38	50.69	50.93	50.60	n.a.	n.a.
Philippines	18.00	18.00	18.00	22.00	24.00	24.00	24.00	n.a.	n.a.	n.a.	n.a.
Singapore	11.83	9.33	8.98	9.63	9.98	10.08	10.10	10.10	10.33	10.33	9.88
Taiwan	15.25	10.75	10.25	10.25	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Thailand	17.00	16.00	16.00	17.00	17.00	17.00	17.00	17.00	17.00	17.00	16.50
Venezuela	15.50	17.00	16.00	15.00	15.00	15.00	15.50	16.00	15.00	15.00	16.00

Domestic corporate bond yields

long-term issues, at or near end of month

	1981	1982	1983	1984							
	Dec	Dec	Dec	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
United States	15.50	11.75	12.63	13.88	13.58	14.50	13.38	13.20	12.88	12.63	12.37
Canada	16.18	12.74	12.89	14.13	14.59	14.69	13.91	13.39	13.33	12.90	12.62
France	17.33	15.91	14.06	14.23	13.88	13.77	13.77	13.77	13.77	12.84	12.58
Germany	10.50	8.20	8.30	8.00	8.00	8.00	8.00	7.90	7.70	7.60	7.30
Netherlands	11.03	7.80	8.51	8.28	8.35	8.43	8.49	8.42	8.21	7.77	7.61
Norway	13.36	14.13	13.25	13.00	12.75	12.75	12.75	12.75	12.75	12.75	12.75
Spain	14.76	17.10	19.84	22.54	22.06	21.63	21.47	21.78	n.a.	n.a.	n.a.
Sweden	12.94	13.37	12.21	12.04	12.23	12.41	12.73	12.78	13.18	13.19	13.21
Switzerland	n.a.	4.87	4.94	4.91	5.10	5.07	5.10	5.16	5.12	5.14	n.a.
United Kingdom	16.65	12.34	11.57	11.48	12.11	12.69	13.06	12.15	11.74	11.79	11.45
Australia	16.50	15.00	13.50	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Japan	7.70	7.55	7.09	6.89	7.16	7.13	7.09	7.06	6.98	6.99	6.51
Korea	26.90	15.90	14.20	13.00	13.20	13.70	14.00	14.50	14.60	14.60	14.90
Venezuela	17.00	18.00	18.00	17.50	18.00	18.00	18.00	18.50	18.00	19.00	18.00

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World Financial Markets

Morgan Guaranty Trust Company of New York

January 1985

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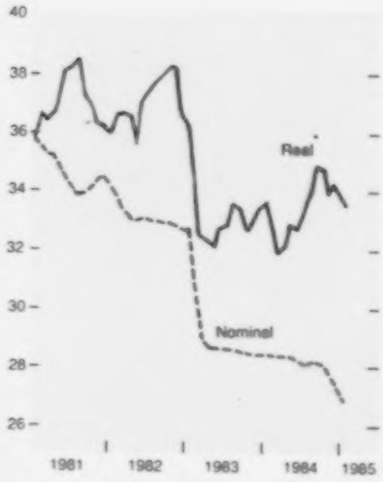
Chart 1

Average world oil price
$ per barrel



* Nominal price deflated by the wholesale price index of manufactures in major industrial countries in dollar terms. January 1981 = 100

Lower oil prices

Despite OPEC's attempts to shore up eroding oil prices by regulating output, the world's oil price structure, centered on the OPEC benchmark of $29 per barrel, became obsolete during 1984 (see Chart 1). Some official OPEC prices were lowered late this month, but the possibility still exists for further price declines this year and perhaps, beyond.

The downward pressure has three main sources. First, despite the economic recovery, world oil demand has been fundamentally weakened by substitution, conservation, and the sustained rise in European oil prices as a result of the strong dollar. Second, non-OPEC oil output has persistently risen, capturing most, if not all, of any increase in oil consumption. Third, the resulting squeeze on OPEC production has generated serious financial pressures not only on the large debtors in OPEC but also on such countries as Saudi Arabia.

While further falls in oil prices appear inevitable, their extent is hard to judge. Any new short-run equilibrium is particularly dependent on market perceptions of both the scope for demand substitution and the credibility of producer discipline, bearing in mind that oil market prices are far above those of competing fuels and greatly in excess of production costs from existing facilities. In the short run oil consumption has proven highly inelastic to price changes. Only in the longer term do consumption and new supply development trends become determining.

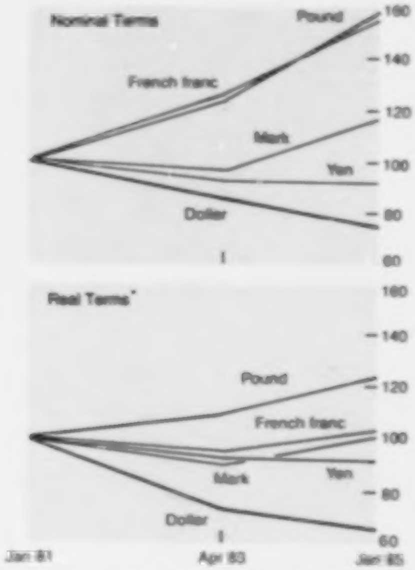
Orderly reductions in oil prices, in significant degree and lasting several years, could be very constructive for the world economy, provided OECD governments do not block benefits to consumers through increased oil import taxes. However, a very sharp drop in oil prices could be troublesome. For a time, oil consumers and some oil-exporting countries with diversified export sectors could be net beneficiaries from stepped-up OECD growth and lower interest rates. However, some oil producers would face intensified financial problems, possibly with political ramifications that could lead to new supply disruptions. If oil prices were then to explode again, the world economy would be at serious risk of renewed stagflation.

Oil price trends

Spot oil prices, especially for light crudes, began to fall sharply early last October, prompting cuts of up to $2 per barrel in the official prices

Chart 2

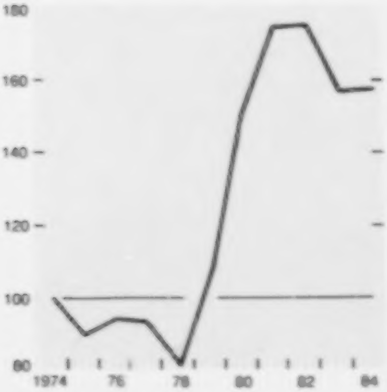
Oil prices in various currencies
Jan 1981=100



* Oil price in local currency terms deflated by the corresponding country's wholesale price of manufactures.

Chart 3

OPEC terms of trade
index 1974=100



of Norway, the United Kingdom, and Nigeria. Posted U.S. domestic crude prices also fell. The OPEC meetings at the end of 1984 did nothing to boost market confidence, mainly because the prices of the various grades of crude remained misaligned. Despite a small reduction, the differential between official prices for heavy and extra-light grades still was double the spread in spot markets. Adjustment pressure focused on lighter crudes. By contrast, spot prices for the cheaper, heavier grades remained at or above official levels. Refinery upgrading in recent years has promoted the production of gasoline and other light derivatives from heavy crude. Moreover, the U.K. coal strike has added 500,000-700,000 bpd to the demand for heavier oil.

Light crude spot prices continued to drift downward in early 1985, with North Sea grades the weakest. Norway abandoned official prices in favor of spot-related pricing and the United Kingdom came under pressure to follow. Posted U.S. domestic crude prices fell further. Those light oil exporters that had not cut official prices openly resorted to hidden discounts or extended credit in order to sustain export volume. These pressures led most, but not all, OPEC members to cut official prices for lighter crudes in late January. Attention now focuses on the United Kingdom, whose official price remains well above spot levels.

The OPEC adjustments cut the weighted average of official OPEC prices by less than 30¢ to just under $28 per barrel. In practice, these cuts no more than legitimized most hidden price discounts. Indeed, with spot-related transactions rising to an estimated 50% of total oil sales, the effective average price of internationally traded oil now is probably below $27 per barrel. This is a 25% decline from the all-time peak of almost $36 per barrel.

The reduction in average world oil prices, however, has been much less in real terms — the nominal oil price deflated by a dollar index of wholesale prices of manufactures in the major industrial countries. Because of the strong dollar and low OECD inflation, real oil prices still are only 7% below their January 1981 peak. That has been the average decline for the major oil-consuming countries. Only in the United States have nominal and real crude oil prices fallen steadily (see Chart 2). For Japan, nominal and real oil prices declined much less between 1981 and early 1983, and have since remained unchanged. Most striking, all three major oil-consuming countries of Europe have experienced increases in crude oil prices in nominal domestic-currency terms during the past two years, with prices flat to rising in real terms. Substantial real oil price rises also have occurred in some of the larger LDC debtors, especially in Latin America.

By contrast, for the oil-exporting LDCs — OPEC and non-OPEC — the strength of the dollar has reduced the dollar cost of imports from Japan and Europe, mitigating their terms-of-trade losses. For example, OPEC countries' import prices have remained stable or have fallen over the past four years in dollar terms, keeping the decline in their aggregate terms of trade under 10% in 1984 relative to the 1981-82 peak (see Chart 3). That is less than half the decline that occurred in 1977-78 when U.S. currency weakness and high OECD inflation drove down the OPEC terms of trade by 20% relative to 1974.

Oil demand

The 1984 recovery in free-world oil consumption was small. In volume terms, it amounted to just over 1 million bpd, or 2.5%, reversing little of

Chart 4

The declining share of OPEC

free world oil supply in millions of bpd

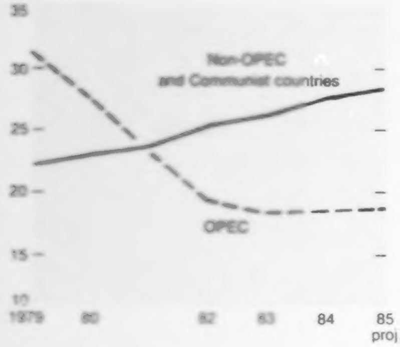


Table 1

Oil demand and supply

millions of bpd

	1984 est.	Changes 1979-1983*	1983-1984	1984-1985
Consumption**	46.3	—7.3	1.1	0.4
Industrial countries	34.8	—7.8	1.0	0.2
United States	15.7	—3.3	0.5	0.1
Europe	12.0	—2.9	0.1	0.0
Japan	4.6	—1.1	0.2	0.1
Developing countries	11.5	0.5	0.2	0.1
Stock change	—0.1	—1.2***	0.4***	—
Non-OPEC production	25.6	3.5	1.1	0.4
United States	11.2	0.5	0.3	0.0
North Sea	3.4	1.4	0.4	0.1
Mexico	3.0	1.4	0.0	0.0
Other developing	5.0	0.9	0.5	0.2
Communist net exports	1.9	0.6	0.2	0.2
OPEC production	18.6	—13.2	0.1	0.0
of which: crude oil	17.6	—13.4	0.1	0.0

*Cumulative, not at annual rates.
**Excluding Communist countries.
***Change in the rate of stock accumulation.

the more than 7 million bpd drop of 1980-83. Consumption in the industrial countries was up by 2.7% last year, almost two-thirds of the increase occurring in the United States and Japan (see Table 1). Vigorous economic growth and a cold winter boosted their oil consumption by about 3½% and 4%, respectively. By contrast, sluggish economic activity and rising domestic-currency oil prices held Europe's oil consumption virtually flat. In the developing countries oil consumption recovered by 1% or more in 1984, especially in fast-growing Asia. Price increases and slow economic growth continued to hold back oil consumption in Latin America.

The 1984 increase in world oil consumption fell far short of the increase in economic activity. Industrial countries' real GNP was up 4½%, while U.S. growth was close to 7% — growth rates almost double those of oil consumption. The shortfall stemmed partly from gains in energy efficiency. Energy use in the industrial countries declined by more than 20% per unit of real GNP between 1973 and 1983 (see Table 2). Most of this decline occurred in the second half of the period, especially with the decontrol of oil prices in the United States.

More important for oil usage in recent years has been fuel substitution. Other fuels have price and perceived security advantages. The share of oil in free-world energy consumption fell from 54% in 1973 to 47% in 1983, with coal and nuclear energy accounting for almost all the displacement (see Table 3). As with conservation, substitution accelerated after the second oil shock. Natural gas also has become an important force in oil displacement, especially in Japan and Europe, which have achieved the largest and most consistent shifts away from oil since 1973. Even in the United States, where the share of oil in total energy use rose until 1978, by 1983 it had fallen from 47% to 41%. Substitution also has been significant in the developing countries, where oil's share declined from 61% in 1973 to 55% in 1983. Substitution probably accelerated in 1984. In the OECD countries total energy use rose nearly twice as fast as oil use in the first half (see Table 4). Indeed, in Europe non-oil fuels absorbed almost all of the growth in energy use.

Besides the weakness in oil consumption, oil demand has been undermined by inventory reduction on the part of oil companies, wholesalers, and consumers. Perceptions of supply surplus, weak price expectations, and the high cost of financing have been the main motivations, buttressed by the steady growth of government-owned stocks in the United States and elsewhere. Company-owned stocks in the OECD countries fell during 1981-84 at an average rate of 600,000 bpd, enough to yield a decline in overall stocks (see Table 5). Nevertheless, the combined company-government inventory level appears adequate in relation to future needs.

Whatever happens to prices, there is scant likelihood of rapid near-term growth in oil consumption. In the industrial countries, oil usage is likely to rise less than 1% during 1985, given the moderation of economic growth in the United States. Indeed, overall OECD consumption could actually decline in 1985, if this winter season proves of normal severity and the U.K. miners' strike ends soon. Thus, although developing countries' oil consumption could be up again by 1% or so, total free-world consumption seems destined to rise by 1% at best this year.

At anything close to current prices, the longer-term outlook for oil consumption is scarcely better than in the short run, even assuming OECD economic growth on the order of

Table 2

Energy conservation: consumption per unit of real GDP

industrial countries, 1973=100

	1973	*1978*	*1983*
Industrial countries	100	92	79
United States	128	116	100
Europe	79	72	65
Japan	77	67	53

Table 3

Energy substitution: consumption by type of fuel

percent shares

	1973	*1978*	*1983*
*Total**			
Oil	54	53	47
Gas	19	18	18
Coal	19	18	22
Nuclear	1	3	5
Hydro	7	7	8
United States			
Oil	45	47	41
Gas	31	26	25
Coal	18	18	23
Nuclear	1	4	5
Hydro	4	4	6
Europe			
Oil	60	56	48
Gas	11	14	15
Coal	20	19	21
Nuclear	1	3	7
Hydro	8	8	9
Japan			
Oil	77	74	60
Gas	2	4	8
Coal	15	13	19
Nuclear	1	4	8
Hydro	5	5	6
LDCs			
Oil	61	59	55
Gas	12	12	14
Coal	19	19	21
Nuclear	**	**	1
Hydro	8	9	9

*Excluding Communist countries.
**Less than 1%.

3% per annum. If oil prices decline only modestly during the remainder of the 1980s they would remain high by historical standards in real terms, and also high relative to the prices of other fuels. Conservation and substitution would still go forward. New investment in industry and housing would continue to be more energy efficient than the stock it replaces. And in the key U.S. transportation sector, government-mandated efficiency standards for automobiles and intense competition in airlines and trucking compel cost reductions that will contain oil use.

As for substitution, natural gas is likely to play an increasingly important role, because its price is currently only 65%-85% that of oil on a thermal-equivalent basis. The price of most gas traded internationally is contractually tied to oil prices. Moreover, readily available gas supplies exceed current consumption in North America, Europe, and the Pacific basin — an excess that should reinforce the price advantage of gas for some years to come. Coal also should continue to displace oil, if less rapidly than in the past, given its limited flexibility and ease of use. Nevertheless, based on current production, transport, and operation costs, coal still has a price advantage over oil of more than 40%.

Incorporating these conservation and substitution forces into energy demand, most long-term forecasts conclude that oil consumption will be sluggish during the rest of the 1980s. Growth projections cluster around 1% or maximum increases of 500,000 bpd per annum. Consumption growth could be distinctly less or even negative if, against expectations, OECD economies slide back into stagnation. However, the long-term outlook for oil consumption may be brighter in the event dollar oil prices fall materially. Such price declines during this middle part of the 1980s could well raise oil consumption significantly by the end of the decade, especially if they help bring about higher rates of OECD economic growth.

Non-OPEC oil supply

All the growth in 1984 oil consumption was supplied by non-OPEC oil production plus net oil exports from the Communist countries. Together, they rose 1.3 million bpd last year, having grown by over four million bpd in the previous four years (see Table 1).

Non-OPEC production outside the Communist countries was up by over 1 million bpd last year, to 25½ million bpd. Excluding Mexico, non-OPEC LDCs provided 45% of the 1984 increase, their output reaching 5 million bpd. North Sea production of 3.4 million bpd contributed more than 35% to the overall increase. Defying earlier predictions U.S. oil production continued to grow, by about 300,000 bpd, to almost 11.2 million bpd in 1984 — the highest level since 1973.

Again excepting Mexico, non-OPEC countries generally kept output at or close to capacity. The bulk of their oil production is for domestic consumption, rather than export, and most provide international oil companies attractive financial incentives to produce at capacity. Security considerations, aggressive pricing, and geographic advantages also play a role.

Until early 1983, Mexico's oil production also ran at capacity, contributing significantly to the growth in total non-OPEC output. Mexico has since imposed an export ceiling of 1.5 million bpd, which was recently reduced by 100,000 bpd in support of OPEC prices. The export ceiling and weak domestic oil consumption have kept Mexican oil production flat since 1982, at about 3

Table 4

Total energy and oil consumption

percent changes

	1st half 1984 from year ago
Industrial countries	
Energy	7.1
Oil	3.8
*North America**	
Energy	8.6
Oil	5.2
Europe	
Energy	4.2
Oil	0.6
*Pacific***	
Energy	8.9
Oil	6.8

*Canada and United States.
**Japan, Australia, and New Zealand.
Source: International Energy Agency.

Table 5

Industrial countries' oil inventories

	Annual change millions of bpd			*Year-end level**
	Companies	*Govern-ments*	*Total*	*Total*
1979	0.6	0.1	0.7	84
1980	0.4	0.1	0.5	95
1981	—0.6	0.4	—0.2	98
1982	—0.7	0.2	—0.5	101
1983	—0.7	0.2	—0.5	92
1984	—0.3	0.3	—0.1	90

*In days of next year's consumption.
Source: International Energy Agency.

million bpd, which is some 300,000 bpd below available capacity.

Communist countries' net exports to the West have kept on rising. Despite projections in the 1970s of a steady decline and shift to net importer status by 1985, net Communist exports approached 2 million bpd last year, twice the 1979-81 volume. Communist production has risen and domestic consumption has fallen, as a result of lower economic growth, conservation, and increased substitution, mainly of natural gas.

Looking ahead, the growth rates of both non-OPEC production and Communist net exports are expected to slow. However, non-OPEC supplies will be affected in the late 1980s by oil price developments and fiscal incentives in the next few years. Forecasts put the 1990 level of non-OPEC production plus Communist net exports within 1.5 million bpd either way of current volume. Nevertheless, during 1985-87, the increase in non-OPEC production, although slowing, could supply almost all the rise in free-world consumption. For example, in 1985, the rate of growth in non-OPEC production and Communist net exports is expected to be half that of 1984, just over 500,000 bpd. Yet this increase should cover all additional oil consumption. The same is likely for 1986, if not for 1987.

The growth of non-OPEC production will eventually slow because the three major oil-producing regions, which together account for two-thirds of the total, will either peak or continue to restrain output. U.S. and U.K. production are expected to flatten out before long and then decline. Mexico, which has the largest proven oil reserves outside OPEC in the free world, is likely to raise production only slowly, because of either continued limits on its exports or financial constraints on capacity development. The long-term geological prospects of the other non-OPEC producers are not fully known. Only Norway has a clear chance for significant increases in oil production during the rest of the 1980s.

OPEC oil supply and finances

If prices settle within a few dollars of present levels, OPEC can look forward to an increase in demand for its oil of up to 4 million bpd by the end of this decade, assuming non-OPEC production falls off as some expect. However, OPEC's more immediate concern is that non-OPEC suppliers will capture all, or nearly all, of the modest growth in world oil demand projected for this year and next. Although OPEC would welcome holding onto its 1984 crude oil output of 17.5 million bpd, rather than suffer further deep cuts as in previous years (see Table 1), those cuts leave OPEC's share of the world oil market drastically diminished (see Chart 4).

OPEC faces three urgent problems in managing output and prices: excess capacity; financial pressures; and political division.

OPEC now has some 10 million bpd in readily available excess crude oil production capacity, 36% of its own capacity and equal to 20% of 1984 free-world oil consumption. Nigeria and Venezuela hold a small proportion of that excess capacity, but the great bulk, over 80%, lies in the Middle East, with Saudi Arabia alone accounting for about 50% of the total (see Chart 5). Excess capacity would be still greater with the return of over 3.5 million bpd Iranian and Iraqi capacity that is currently unavailable due to the war. If Iraq completes the construction of export pipelines through Turkey and Saudi Arabia, available capacity could jump by more than 1 million bpd as early as 1986.

Chart 5

OPEC production and excess capacity

millions of bpd, crude oil only

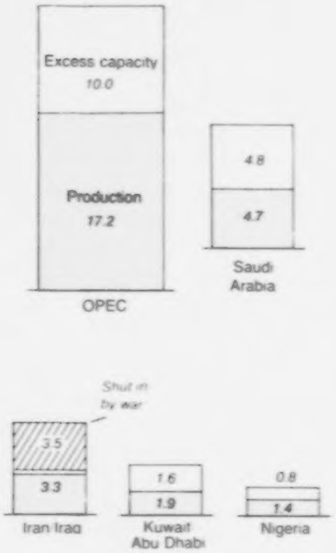


Table 6

OPEC current account balance

billions of dollars

	1980	1983	1984 est.
Total exports	308	188	183
Oil revenues	281	158	153
*Other exports**	27	30	30
*Total imports**	—212	—228	—203
Investment income	16	18	13
Official transfers	—9	—5	—4
Current account	103	—27	—10
of which:			
Saudi Arabia	41	—19	—13
Kuwait, Qatar, UAE	28	10	11
*Remaining nine***	33	—19	—9

*Includes services and private transfers but excludes investment income.
**Algeria, Ecuador, Gabon, Indonesia, Iran, Iraq, Libya, Nigeria, and Venezuela.

Financial pressures on OPEC members have gone unrelieved, even though the OPEC current account deficit seems to have shrunk to about $10 billion in 1984 (see Table 6). With revenue still falling, the current account improvement was secured only by a further deep cut in OPEC imports of goods and services, which were down 17% from their 1981 peak in real terms.

The most acute financial pressures on OPEC are felt by the nine heavily populated and debt-burdened members, especially by Nigeria, Venezuela, Ecuador, Algeria, and Indonesia. Since 1981 they have faced high interest payments and, in some cases, debt-servicing difficulties and reduced access to external financing. In addition, the war between Iran and Iraq has involved huge financial costs. Stringent cutbacks in imports have enabled these nine countries to narrow their combined 1984 current account deficit to $9 billion. But by end-1984 these countries' aggregate official reserves were down by two-thirds from 1980, to $30 billion, while their debt had grown by over 35%, to $125 billion. With domestic growth rates depressed or negative for the past four years and further large import cuts difficult to implement, most of these countries, particularly Nigeria, are under heavy pressure to discount oil prices or breach oil production quotas in order to maintain export earnings.

Moreover, even the OPEC countries with ample foreign exchange reserves and minimal external debt burdens face financial pressures. Over 60% of the 1980-84 deterioration in the OPEC current account was incurred through large oil production cutbacks by Saudi Arabia, Kuwait, and, to a lesser extent, the UAE and Qatar. Saudi Arabia, as the swing OPEC oil producer, experienced a record current account deficit of nearly $19 billion in 1983. This narrowed to $10-$15 billion last year through a fall in imports. Even at this lower level, the deficit ran over 20% of the country's total export earnings and 12% of its GDP.

While Saudi Arabia and the other three producers of the Arabian peninsula have the financial resources to withstand renewed current account deterioration, their willingness to cut production further may be tempered by the lack of support for their actions by almost all other oil producers — OPEC, non-OPEC, and Communist. At some point overproduction by others may become so large as to make sufficient compensating cutbacks by Saudi Arabia and the other peninsula countries impractical: their production cannot turn negative. Looking ahead, the likelihood of higher Iraqi oil exports, continuing sluggish oil demand growth, and the prospect that more than half of oil consumption is likely to be supplied by non-OPEC producers will further strain Arabian ability to cut production.

Notwithstanding OPEC's ongoing attempts to maintain discipline, the pressures of excess capacity, overproduction, and financial problems make a decline in nominal oil prices inevitable. However, no one knows how large the decline will be or how stable the markets then will prove. Given the wide gulf between present oil prices and production costs, the main forces preventing a sharp price adjustment are the fear of income loss by oil producers, the apprehensions of some for financial stability, and the longer-term interest of many in keeping prices high enough to ensure development of new oil supplies. Nevertheless, despite the best efforts of the interested parties, the risk of a sharp drop in oil prices cannot be dismissed.

Oil prices and industrial countries

The many uncertainties about how

Table 7

Oil prices and the industrial countries

		Scenario I: stable prices				*Scenario II: erosion and recovery*				*Scenario III: sharp drop with rebound*			
	1984 est.	*1985*	*1986*	*1987*	*Annual average 1988-90*	*1985*	*1986*	*1987*	*Annual average 1988-90*	*1985*	*1986*	*1987*	*Annual average 1988-90*
Oil prices (average, $/barrel)	28.5	28.5	28.5	28.5	28.5**	25.0	23.0	23.0	28.0**	18.5	18.5	22.0	37.0**
OECD real GNP growth (%)	4.5	3.0	2.0	2.0	2.5	3.5	3.0	2.8	3.0	4.0	2.0	3.0	2.0
United States	6.8	3.2	1.8	1.8	2.1	3.6	3.0	2.5	3.0	4.0	1.5	3.0	1.6
Europe	2.5	2.5	2.0	2.0	2.3	2.8	2.8	2.5	2.8	3.0	2.0	2.5	2.0
Japan	5.5	4.0	3.0	3.0	4.0	4.0	4.0	4.0	4.0	5.0	3.5	4.5	3.8
OECD manufactures prices													
Local currency (% change)	3.5	4.5	5.0	4.0	5.5	3.0	4.0	4.5	5.0	2.5	2.5	4.0	7.0
Dollar terms (% change)	—3.4	3.5	8.0	4.0	5.5	1.5	7.0	6.0	5.0	4.0	7.0	7.0	7.0
*Dollar (% change)**	7.1	2.0	—5.0	0.0	0.0	2.0	—5.0	—5.0	0.0	—3.0	—7.0	—5.0	0.0
6-month Eurodollar LIBOR (% p.a.)	11.2	10.5	10.0	10.0	10.0	9.5	9.0	9.0	9.0	8.0	7.0	7.0	11.0

*Nominal effective dollar exchange rate; minus indicates depreciation.
**1990 price.

oil prices will evolve suggest three scenarios that can be analyzed to illuminate the impact of lower oil prices on the world economy. The first is a reference scenario in which the average effective oil price returns forthwith to the 1984 level of just over $28 per barrel and remains there in nominal terms throughout 1985-90 (see Table 7). The second envisages a gradual erosion in prices to an effective average of $23 per barrel in 1986-87. The third is one of an abrupt $10 price drop to $18.50 per barrel in 1985 and 1986. In the second and third scenarios prices recover in the late 1980s: in the second, the rise is gradual, to $28 by 1990 in nominal terms; in the third, by contrast, the increase comes through a new oil shock, which pushes nominal prices up to $37 in 1990, 20% higher in real terms than in the other cases.

The three scenarios have differing consequences for world economic activity, inflation, and interest rates, which also depend on the policy responses of OECD governments to oil price trends. Under the first scenario of stable nominal oil prices, the current economic recovery would moderate. Because of its strength to date, the U.S. recovery would be increasingly vulnerable to inflation triggered by the gradual onset of capacity constraints and higher wage demands. That would provoke monetary restraint and compound expected fiscal tightening. The upshot would be a distinct slowing of U.S. economic expansion that would not be fully offset by any speedup in growth elsewhere.

There would be little progress in bringing down OECD unemployment — over 30 million as 1985 begins. OECD inflation would edge higher in local currency terms and interest rates would remain high by historical standards in both nominal and real terms. Non-oil commodity prices would rise in line with the prices of OECD manufactured goods. High dollar oil prices, in conjunction with a relatively strong U.S. currency and economic growth below potential, would prevent gains in the terms of trade of non-oil commodity exporters.

A gradual erosion of dollar oil prices, as in the second scenario, would make possible higher eco-

Table 8

Non-oil export earnings

percent changes, dollar terms

	1984 est.	1985-90 annual average by scenario I	II	III
Brazil	21.5	9.2	10.0	10.2
Chile	—3.1	10.9	13.5	13.2
Korea	19.5	12.7	13.4	13.0
Turkey	24.2	11.2	12.0	11.1
Mexico	18.6	10.6	11.3	12.3
Venezuela	20.0	12.2	12.8	12.3
Indonesia	19.8	10.8	12.4	10.5
Nigeria	—46.3	5.1	6.2	3.3
Memo:				
OECD manufactures price inflation	—3.2	5.3	4.9	6.6

Table 9

Current account balances in 1984

billions of dollars, estimated

	Net oil exports	Gross interest payments	Current account
Brazil	—4.7	—11.7	—0.5
Chile	—0.5	—2.0	—2.1
Korea	—5.4	—4.2	—1.4
Turkey	—3.5	—1.7	—1.8
Mexico	15.6	—11.3	4.1
Venezuela	14.5	—4.2	4.1
Indonesia	9.3	—2.3	—2.5
Nigeria	11.4	—1.9	—0.2

nomic growth and lower inflation for the world economy. However, it assumes policymakers are not so ill-advised as, say, to raise energy taxes without rebates to consumers, thereby blocking the increase in real disposable incomes that a fall in oil prices should imply. Monetary policy, if unchanged, could accommodate stronger growth, since lower energy prices would more fully compensate for domestically generated inflationary pressures and deter any escalation in nominal wage increases through a price-wage spiral. More robust economic growth would raise non-oil commodity prices relative to those of manufactures. Lower general price inflation would induce a more pronounced fall in interest rates. Somewhat more dollar depreciation could ensue, say, by an additional 5% in 1987 following the 5% in 1986 already envisaged in the stable price scenario. That extra depreciation would reflect some loss in the dollar's petrocurrency appeal and the significant boost to Europe's real income and growth.

After 1987, under this scenario, oil prices would begin to rise again in current dollars, though by little in real terms. OECD inflation would edge higher too, but monetary policy could accommodate the increase. Thanks to the initial drop in energy prices, economic growth and investment in the industrial countries would be greater, enough to support long-term GNP growth at the higher pace of 3% per annum without generating significant capacity shortages or excessive wage demands.

The third scenario, in which oil prices drop and then rebound sharply, implies severe deterioration in the economic performance of the industrial countries. The initial drop in oil prices would bring inflation sharply down and boost economic growth. After a short lag, however, the financial dislocations associated with the major oil price decline could worsen political tensions among the producing countries and stir internal turmoil in some. Business and investor confidence could erode, undercutting domestic demand. To counter that weakness and to ease financial distress, the monetary authorities would pump up liquidity. For a time, interest rates could fall substantially, and the dollar move sharply lower.

This, plus the temporarily higher economic growth spurred by lower interest rates, would initiate a new inflationary cycle. Expanding demand and an inflationary environment are exactly the circumstances in which an oil supply disruption could lead to a rapid explosion in oil prices. OECD policies would turn restrictive, leading to low growth and high inflation in the latter part of the decade, but with non-oil commodity prices depressed.

Implications for LDC borrowers

The three scenarios for oil prices, in conjunction with the associated prospects for industrial-country economic growth, inflation, and interest rates, yield significantly different implications for the financial and economic outlook for developing countries.

The key to the financial future of the principal borrowers lies in their *export outlook*, both for oil and non-oil products. The 1984 resurgence of LDC export markets in the industrial countries, together with austere demand policies at home, enabled many to achieve spectacular gains in nonpetroleum exports, especially Turkey, Brazil, Indonesia, and Korea (see Table 8). They are unlikely to repeat such performance in 1985. Indeed, the projected 1985-90 export growth rates shown in the table attempt to allow both for less austere domestic demand — for example, in the case of Brazil — and

Table 10

Current account prospects

percent of exports of goods and services

	1984 est.	Scenario I 1985	Scenario I 1987	Scenario I 1990	Scenario II 1985	Scenario II 1987	Scenario II 1990	Scenario III 1985	Scenario III 1987	Scenario III 1990
Brazil	—1.7	—6.5	—6.8	2.9	3.3	—6.0	9.2	1.7	—0.2	—22.0
Chile	—43.9	—30.8	—20.2	—15.1	—27.0	—3.9	5.2	—21.6	—1.9	—11.8
Korea	—3.9	—6.8	—4.4	3.7	—3.6	1.2	7.1	2.6	3.8	2.9
Turkey	—17.6	—15.4	—11.9	—4.8	—11.7	—8.7	—6.7	—5.4	—13.0	—16.0
Mexico	13.5	3.4	—2.9	—19.5	1.3	—8.1	—8.8	—9.7	—4.6	—0.4
Venezuela	16.8	19.3	12.9	—1.3	13.3	0.5	6.6	1.5	—1.2	11.0
Indonesia	—11.3	—4.2	—2.1	—10.0	—5.9	—5.4	—1.4	—17.2	—6.7	1.0
Nigeria	—5.1	2.3	—9.3	—32.6	—4.3	—26.4	—33.8	—19.1	—28.1	2.4

for underlying deficiencies in export orientation and capacity.

In general, the scenario with stable oil prices augurs only moderately well for the borrowers' real nonpetroleum export earnings. The oil price erosion scenario, in which OECD real GNP growth averages about 0.7% per annum higher than under stable oil prices, would lead to a much better result, adding one percentage point or more to annual growth in the borrowers' export earnings in real terms. For such raw material exporters as Chile the benefit would be compounded by the more robust path in commodity prices that faster OECD economic growth should engender. For Turkey, however, the benefit of oil price erosion would be muted by a slowdown in sales to its important markets in the Middle East. In the third scenario, the short-lived burst in OECD growth could give a temporary fillip to LDCs' non-oil export earnings, but that impetus would fade once OECD demand faltered.

Turning to the *current account,* Tables 9 and 10 show that even with stable oil prices the oil-importing borrowers would all record substantial improvement. Relative progress would be greatest for Chile and Turkey, whose starting levels of deficit are the largest in relation to export earnings. The deficits of Brazil and Korea would edge into modest surplus by the end of the decade. With oil price erosion, the current account results for most oil-importing countries should be even better, since they would simultaneously enjoy faster export growth, terms of trade gains, and lower interest rates. Of course, these long-term current account benefits would prove elusive if the gains in export earnings or savings on interest payments were consciously used to cover equal increases in imports. However, even without deliberate policy relaxation on the part of LDC governments, their imports would likely rise somewhat and their economic growth accelerate, since lower oil prices and interest rates imply higher real spendable incomes for their consumers. Real GDP growth rates in the borrowing countries under the three scenarios are shown in Table 11 . The differences are estimated to be small, unless governments guide domestic policies by external balance objectives.

The current account balances of oil exporters would do fairly well in 1985 with stable oil prices: Mexico and Venezuela would stay in the black; Nigeria could move into small surplus; and Indonesia's deficit would be 60% smaller than in 1984. However, the longer-term benefits to oil producers of stable prices are not as favorable as might be imagined. For example, if oil prices erode, the more vigorous non-oil export sales accruing from faster

Table 11

Real GDP

percent changes

	1984 est.	1985-90, annual average by scenario I	II	III
Brazil	4.0	5.9	6.0	6.1
Chile	6.0	3.4	3.8	4.0
Korea	7.5	6.1	7.2	6.3
Turkey	5.5	4.0	5.5	3.1
Mexico	1.5	5.0	4.9	5.0
Venezuela	—1.7	3.4	3.4	1.6
Indonesia	4.7	4.8	5.0	3.7
Nigeria	—0.9	1.4	1.8	1.9

Table 12

Interest payments

percent of exports of goods and services

	1984 est.	1990 by scenario I	II	III
Brazil	38.9	23.6	17.5	26.7
Chile	42.0	31.8	20.4	23.3
Korea	11.4	[illegible].4	6.6	7.7
Turkey	16.0	11.1	9.3	13.2
Mexico	37.1	32.6	27.9	27.8
Venezuela	22.6	14.2	14.9	18.3
Indonesia	10.1	9.1	7.2	9.8
Nigeria	15.8	17.5	18.4	16.1

OECD economic growth, together with lower import price inflation and reduced interest payments on their accumulated foreign debt (see Table 12), should enable Mexico and Indonesia to achieve much better current account results by 1990 than they would with oil prices stable. For Venezuela, whose non-oil export sector is relatively small, the projected improvement would hinge on the reduction in world interest rates, together with the eventual recovery of real oil prices.

As for the third scenario, the immediate current account costs would be very large for the oil exporters, notwithstanding the assumed decline in interest rates.

Except for Turkey, the oil importers should gain substantially on current account so long as oil prices remain low. Turkey's current account would improve sharply in 1985 but revert to large deficit just two years later: by that time, losses in Middle East purchasing power would depress Turkey's exports while firming oil prices would inflate its import bill. Later, as oil prices soar and OECD economic growth is curtailed, most oil-importing LDCs could well return to current account deficit, possibly sizable. For their part, the oil-exporting countries could move quickly into surplus if oil prices rise sufficiently far and fast.

Table 13 sets out the projected behavior under the three scenarios of *debt-to-export ratios.* With oil prices holding stable, almost all the eight major borrowers should succeed in bringing down their debt-to-export ratios. Brazil could cut its debt burden by one-third relative to exports by 1990. Other reductions would be: Venezuela, one-third; Korea and Turkey, each about one quarter; Indonesia, 15%. Mexico's progress, however, would likely be slight. Most problematic would be the prospects for Chile and Nigeria.

In the erosion scenario, price weakness naturally delays progress in reducing the debt burdens on oil exporters. However, the projected pickup in OECD growth could allow both Mexico and Indonesia to close out the decade with debt burdens considerably reduced, despite the intervening price weakness in their principal export commodity. Venezuela also could wind up ahead.

In the event that oil prices drop precipitously, the debt burdens of oil exporters would balloon so long as oil prices held far below present levels. Even if oil prices were subsequently to soar, high interest rates would make it hard for Venezuela or Nigeria to achieve substantial overall reductions in their debt burdens by the end of the decade. The outcome might be quite favorable, however, for Mexico and Indonesia if they were resolute in adjustment.

Table 13

Debt-to-export ratios

total external debt as percent of exports of goods and services

	1984 est.	Scenario I 1985	1967	1990	Scenario II 1985	1987	1990	Scenario III 1985	1987	1990
Brazil	324	319	290	212	320	263	173	308	261	221
Chile	404	415	367	312	414	310	222	392	300	253
Korea	115	113	113	88	112	100	68	109	92	66
Turkey	239	227	214	177	230	201	167	229	207	187
Mexico	304	309	292	296	328	319	277	367	326	232
Venezuela	185	172	143	128	194	188	148	232	219	151
Indonesia	135	130	121	114	138	130	104	164	154	110
Nigeria	155	143	144	194	161	202	230	191	248	161

As for the oil-importing borrowers, their ability to cope with a new oil price explosion toward the end of this decade would be vitally affected by their near-term response to any intervening decline in oil prices. If such a decline were misread as permanent, and were taken as the cue for relaxation of adjustment policies or neglect of fundamental domestic reforms, these borrowers could find themselves entering a new phase of fast-rising oil prices with debt burdens still high and export capabilities inadequate.

Summing up

The oil market is in profound disequilibrium. OPEC's attempts to manage production as strictly as would be required for preservation of the present price structure are being thwarted by the overwhelming forces of excess capacity, financial woes, and producer indiscipline. Nor is the disequilibrium sure to fade quickly. There is continuing momentum for energy conservation and substitution away from oil. Non-OPEC producers have come to the fore, with the result that OPEC has seen its share of free-world oil consumption sink inexorably from 60% in 1979 to 40% at present, even while OPEC members hold almost 80% of free world proven reserves.

The question no longer is whether prices will fall but by how far and for how long. There is no certainty what path prices will take. However, it is by no means a matter of indifference. An erratic, precipitous decline should be avoided, since it would spell serious trouble for a number of industries and producing countries, potentially leading to wider problems unless the attendant financial strains are adequately contained. However, a staged decline in oil prices, cumulatively of appreciable degree, can be a highly positive opportunity for the world at large, permitting lower nominal and real interest rates, increased real incomes, and a boost for economic growth and employment.

For favorable results, however, it is pivotal that policymakers in the industrial countries respond affirmatively to an oil price decline. Just as contractionary policies were necessary for successful adjustment to the run-up in oil prices, so now would accommodating policies be appropriate to take best advantage of the expansionary potential of oil price declines. For one thing, the prospective loss of export sales to oil-producing countries would have to be made up through additional domestic demand. More important, if accelerated economic growth and employment gains are to be realized, consumers in industrial countries need to reap the benefit of the higher real incomes that lower oil prices should make possible. In this light, proposals to raise taxes on petroleum, in order to sustain the momentum of energy conservation and oil substitution as the world oil price declines, could well negate any consumer boost. If such taxes are raised, therefore, it is vital that the additional revenues be returned to the consumer or business spending stream through reductions in other levies.

Higher economic growth in the industrial countries promises major benefits for the developing countries, not only for those that are net importers of oil, but also for those oil exporters, such as Mexico and Indonesia, that have nonpetroleum sectors with substantial potential to boost export earnings. Thus, the great majority of LDC borrowers should find that lower oil prices improve their external economic and financial performance in greater or lesser degree. Inevitably, some would be worse off. For the world economy at large, however, lower oil prices would be a welcome tonic.

Statistical appendix

For key to data in tables see September 1984 issue.

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Information herein is from sources considered to be reliable but is furnished without responsibility on the part of Morgan Guaranty Trust Company.

Nominal effective exchange rates

Index numbers, 1980-82 average=100. Each index shows a currency's trade-weighted appreciation or depreciation measured against 15 other major currencies, using averages of daily noon spot exchange rates in New York and bilateral trade weights based on 1980 trade in manufactures. Annual figures are calendar year averages.

	United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Belgium	Netherlands	Spain	Switzerland	Denmark	Norway	Sweden
Pre-June 1970 parities	114.6	114.4	69.0	116.4	111.1	66.2	226.2	147.5	80.6	91.1	82.1	143.2	51.3	113.0	92.3	119.6
Smithsonian central rates	103.1	121.9	77.2	116.7	109.8	68.9	220.9	146.7	80.6	92.3	82.9	142.7	53.2	110.8	90.9	117.6
1981	99.5	100.2	105.8	104.0	100.4	97.2	98.8	102.1	98.9	101.8	97.1	99.4	98.3	99.2	100.1	103.3
1982	109.8	99.4	98.6	100.1	93.1	102.8	92.8	98.1	101.7	92.3	102.7	94.1	106.3	95.7	101.7	92.8
1983	114.2	100.8	107.8	92.0	87.3	107.6	90.3	91.6	103.6	90.0	105.0	78.4	111.5	96.4	99.4	82.2
1984	122.4	97.3	113.0	94.2	84.4	107.4	86.7	88.1	103.6	88.9	104.0	77.4	110.5	93.9	97.8	84.3
1984																
January	119.1	100.5	113.3	95.5	84.1	106.5	87.6	91.5	102.6	87.7	[illegible]	76.3	113.8	93.6	99.2	83.4
February	117.3	100.2	111.9	97.3	84.7	106.0	87.0	91.4	103.5	[illegible]	104.3	77.1	112.2	94.0	99.0	82.9
March	115.4	98.0	114.7	97.2	85.3	109.0	87.2	89.8	104.2	89.0	105.0	77.2	111.7	94.6	98.7	83.5
April	116.7	97.5	115.7	95.1	85.2	108.6	87.3	88.9	104.1	89.0	104.8	78.1	111.3	94.0	98.9	83.7
May	119.5	96.8	114.6	95.1	84.6	107.7	86.9	89.1	103.8	88.8	104.4	78.4	110.9	93.6	99.1	83.6
June	120.2	96.2	113.3	93.0	84.9	108.2	87.0	88.6	104.2	88.9	104.6	78.0	110.1	93.8	99.1	83.4
July	124.2	95.4	110.8	90.3	84.6	107.7	87.3	87.7	104.1	89.3	104.0	77.3	107.9	93.7	97.4	84.4
August	124.0	97.0	111.4	91.9	84.3	107.3	86.6	87.9	103.8	89.3	103.8	76.6	108.8	93.6	97.1	84.6
September	127.3	96.7	112.0	92.1	83.6	106.2	85.9	87.1	103.2	88.9	103.1	76.9	109.3	93.2	96.9	85.6
October	128.5	96.6	112.0	93.6	83.7	106.3	85.7	85.3	103.2	88.7	103.2	77.0	109.8	93.4	97.1	85.6
November	126.8	96.5	112.5	95.0	84.0	106.7	85.6	85.2	103.4	89.3	103.5	77.4	110.2	94.2	95.5	85.1
December	129.5	96.7	112.0	94.8	83.6	106.1	86.0	83.7	103.2	89.3	103.0	77.8	109.5	94.5	95.5	85.0
November 30	128.7	96.4	112.4	96.1	83.8	106.2	85.7	84.2	103.3	89.3	103.2	77.3	109.9	94.2	95.5	85.3
December 7	128.9	96.4	112.0	96.0	83.7	106.2	85.9	84.5	103.1	89.1	103.1	77.5	109.6	94.1	95.4	85.2
14	129.1	96.6	112.1	95.0	83.6	106.1	86.0	84.2	103.2	89.2	103.0	77.8	109.4	94.5	95.5	85.1
21	129.4	96.9	112.2	94.3	83.7	106.1	86.2	83.1	103.3	89.5	103.0	78.0	109.6	94.7	95.5	85.0
28	130.2	97.0	111.8	94.4	83.5	105.9	86.2	82.9	103.3	89.4	102.8	78.1	109.5	94.7	95.6	85.1
January 4	131.3	96.9	111.0	93.4	83.4	105.8	86.3	82.5	103.2	89.7	102.9	78.0	108.9	94.8	95.4	85.0
11	131.7	97.1	110.2	93.5	83.6	106.2	86.3	81.5	103.4	89.9	103.0	78.7	108.0	95.0	95.8	85.0
18	132.4	96.9	110.5	94.4	83.6	106.1	86.6	80.6	103.7	89.8	103.0	78.1	107.5	95.1	95.8	84.9

Real effective exchange rates

Index numbers, 1980-82 average=100. Each index is the corresponding nominal effective exchange rate adjusted for differential inflation in wholesale prices of nonfood manufactures. Underlying price data are partly estimated. Index revisions reflect revised price information or, less frequently, adoption of new price indices to measure inflation in one or more countries.

	United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Belgium	Netherlands	Spain	Switzerland	Denmark	Norway	Sweden
1981	100.6	100.0	104.6	102.7	100.1	97.3	98.7	102.3	99.1	100.3	97.6	99.4	98.7	99.2	100.9	102.1
1982	109.9	100.4	92.3	104.3	97.7	99.2	97.8	97.9	100.7	92.3	102.5	99.8	102.6	97.3	102.5	96.7
1983	112.7	103.1	96.6	100.0	95.9	99.3	100.1	92.0	101.6	92.1	101.8	90.6	105.3	98.8	101.2	91.5
1984	118.2	101.1	97.6	105.4	96.9	96.6	101.1	89.3	102.4	89.2	100.4	95.0	101.9	96.4	100.1	96.8
1984																
January	116.1	103.7	99.1	105.4	94.3	96.7	100.3	91.9	102.1	89.8	100.4	91.7	106.0	95.3	101.3	95.1
February	114.1	103.5	97.7	107.4	95.5	97.7	100.0	91.9	102.9	90.0	101.2	92.9	104.3	96.5	101.5	94.7
March	111.9	101.7	99.9	107.3	96.4	98.5	100.6	90.7	103.6	90.5	101.7	93.7	103.9	96.2	101.0	95.7
April	113.0	101.5	100.4	105.2	96.6	98.0	101.3	89.9	103.1	90.1	101.4	95.0	103.2	95.5	101.0	95.6
May	115.8	100.5	99.1	105.6	97.2	96.9	101.2	90.2	102.5	89.5	100.8	95.6	101.7	95.5	101.7	95.7
June	116.4	99.9	97.7	103.6	97.5	97.2	101.3	89.7	102.9	89.4	101.3	95.9	101.1	97.2	101.3	95.4
July	120.0	99.5	95.4	101.1	97.3	96.7	101.8	89.0	102.9	89.5	100.6	95.3	98.9	95.3	99.1	97.0
August	119.7	101.0	95.8	103.4	97.7	96.0	101.3	89.2	102.7	89.3	100.3	94.3	100.2	95.8	98.5	97.8
September	121.6	101.2	96.7	104.1	97.1	95.2	100.7	88.7	101.8	88.5	99.5	95.5	100.6	97.1	99.4	98.9
October	123.6	100.3	96.0	105.8	97.3	95.2	101.3	86.8	101.6	87.9	99.4	95.8	100.6	96.7	100.2	98.7
November	122.0	100.0	96.1	107.9	98.0	95.6	101.1	86.8	101.6	88.2	99.6	96.7	101.1	97.2	98.3	98.4
December	124.3	100.2	95.6	108.0	97.9	95.0	101.9	85.2	101.2	87.9	99.1	97.6	100.4	98.0	97.9	98.5

Eurocurrency deposit rates

prime banks' bid rates, at or near end of month

		1981	*1982*	*1983*	*1984*						
		Dec	*Dec*	*Dec*	*Jun*	*Jul*	*Aug*	*Sep*	*Oct*	*Nov*	*Dec*
Eurodollar	*overnight*	12.87	9.25	9.50	11.25	11.75	11.50	11.63	9.81	8.69	8.63
	one month	13.31	9.13	9.69	11.75	11.50	11.69	11.00	9.75	8.81	8.38
	three months	13.75	9.19	9.81	12.13	11.81	11.88	11.38	10.00	9.06	8.63
	six months	14.81	9.50	10.06	12.63	12.25	12.13	11.56	10.25	9.50	9.13
	twelve months	14.75	9.63	10.38	13.50	12.75	12.63	11.81	10.81	10.06	9.81
Euro-Canadian dollar	*one month*	15.37	10.00	9.13	11.75	12.44	12.13	11.88	11.38	10.88	9.88
	three months	15.37	10.00	9.50	12.13	12.75	12.13	12.06	11.38	10.50	10.81
	six months	16.37	10.13	9.75	12.69	13.06	12.38	12.00	11.56	10.56	10.06
	twelve months	16.37	10.25	10.00	13.50	13.25	12.63	12.06	11.63	10.56	10.44
Euro-French franc	*one month*	15.75	23.00	12.13	11.81	11.38	10.88	10.94	10.38	10.69	10.69
	three months	17.00	24.00	12.19	12.31	11.75	11.88	11.25	10.69	10.88	10.69
	six months	18.00	22.00	12.31	13.25	12.69	11.19	11.69	11.31	11.19	11.00
	twelve months	18.25	19.75	12.63	14.56	13.63	12.69	12.13	11.75	11.63	11.38
Euromark	*one month*	10.44	5.88	5.25	5.56	5.25	5.31	5.44	5.56	5.56	5.50
	three months	10.50	5.88	5.88	5.88	5.75	5.50	5.75	5.81	5.56	5.50
	six months	10.56	5.94	6.13	6.19	6.13	5.88	5.94	5.81	5.63	5.56
	twelve months	10.25	6.00	6.38	6.75	6.56	6.19	6.00	5.88	5.69	5.56
Euro-Dutch guilder	*one month*	10.75	5.13	5.81	5.94	6.13	6.06	6.00	5.81	5.63	5.69
	three months	10.75	5.19	6.00	6.13	6.38	6.25	6.25	6.00	5.81	5.75
	six months	10.75	5.38	6.25	6.44	6.69	6.56	6.38	6.13	5.88	5.81
	twelve months	10.75	5.63	6.38	6.94	6.88	6.81	6.50	6.25	6.00	5.94
Euro-Swiss franc	*one month*	8.87	2.81	3.38	4.19	4.81	4.50	4.69	4.63	5.13	4.44
	three months	9.25	3.25	3.75	4.44	4.88	4.69	5.13	5.06	4.94	4.56
	six months	9.25	3.44	3.94	4.56	5.06	4.81	5.19	5.06	4.94	4.63
	twelve months	8.50	3.44	3.94	4.75	5.06	5.00	5.06	5.00	4.94	4.69
Eurosterling	*one month*	15.37	10.56	9.13	8.81	12.25	10.75	10.69	10.63	9.69	9.50
	three months	15.69	10.44	9.31	9.44	12.25	10.69	10.69	10.50	9.69	9.88
	six months	15.69	10.31	9.50	9.94	12.19	10.63	10.69	10.44	9.81	10.00
	twelve months	15.37	10.31	9.81	10.56	12.13	10.75	10.75	10.56	10.00	10.19
Euroyen	*one month*	6.12	6.75	6.25	6.00	6.13	6.38	6.13	6.13	6.50	6.19
	three months	6.12	6.75	6.31	6.19	6.31	6.31	6.31	6.31	6.31	6.19
	six months	6.87	7.10	6.38	6.31	6.31	6.31	6.31	6.31	6.31	6.13
	twelve months	6.87	6.81	6.44	6.50	6.50	6.50	6.44	6.31	6.31	6.13
European currency unit	*one month*	14.63	12.44	8.81	9.00	9.31	9.06	9.63	9.50	9.19	9.25
	three months	14.75	12.31	9.19	9.31	9.63	9.31	9.81	9.69	9.31	9.38
	six months	15.00	12.00	9.44	9.81	10.06	9.94	10.06	9.81	9.38	9.50
	twelve months	14.56	11.19	9.63	10.25	10.31	10.25	10.25	10.00	9.69	9.63

International bond issues – by currency

new issues with a maturity of three years or more, publicly offered or privately placed in the period
millions of dollars

	1981	*1982*	*1983r*	*1984*			*Jan-Dec*	
				Octr	*Novr*	*Dec*	*1984*	*1983*
Eurobonds	**31 616**	**51 645**	**48 501**	**11 528**	**8 328**	**5 740**	**79 458**	**48 501**
U.S. dollar	26 830	43 959	38 428	9 564	5 643	4 654	63 593	38 428
Canadian dollar	634	1 201	1 039	365	320	100	1 818	1 039
German mark	1 277	2 588	3 817	635	545	210	4 604	3 817
British pound	501	748	1 947	537	670	238	3 997	1 947
Japanese yen	368	374	212	—	490	313	1 212	212
European composite units	309	1 980	2 019	271	516	197	3 032	2 019
Other	1 697	795	1 039	156	144	28	1 202	1 039
Foreign bonds	**21 369**	**26 397**	**27 828**	**2 628**	**2 616**	**1 658**	**27 912**	**27 828**
U.S. dollar	7 552	5 946	4 545	900	200	600	5 487	4 545
German mark	1 310	2 952	2 671	212	266	354	2 243	2 671
Dutch guilder	481	956	1 053	159	89	86	1 155	1 053
British pound	746	1 214	811	242	31	—	1 292	811
Swiss franc	8 285	11 432	14 299	704	989	379	12 626	14 299
Japanese yen	2 457	3 418	3 772	397	945	225	4 628	3 772
Other	536	479	677	14	94	14	481	677
Total	**52 985**	**78 042**	**76 329**	**14 156**	**10 944**	**7 398**	**107 370**	**76 329**

International bond issues — by country of borrower

new issues with a maturity of three years or more, publicly offered or privately placed in the period
millions of dollars

	1981	1982	1983r	1984			Jan-Dec	
				Octr	Novr	Dec	1984	1983
Industrial countries	**40 861**	**63 062**	**60 309**	**12 294**	**9 203**	**5 246**	**91 883**	**60 309**
Australia	991	2 250	2 529	567	228	—	2 521	2 529
Austria	1 557	1 668	1 290	100	94	139	2 090	1 290
Belgium	527	211	1 116	81	400	—	1 710	1 116
Canada	10 648	11 979	7 487	613	210	100	6 250	7 487
Denmark	695	1 289	1 719	193	64	81	3 342	1 719
Finland	672	815	866	279	16	42	1 392	866
France	3 156	8 386	6 464	661	504	505	7 520	6 464
Germany	279	1 101	3 095	321	131	167	2 045	3 095
Ireland	517	625	959	136	124	36	909	959
Italy	1 106	2 214	1 545	1 018	649	36	3 249	1 545
Japan	6 928	8 397	13 977	1 121	871	588	16 978	13 977
Netherlands	630	894	935	86	231	—	1 104	935
New Zealand	1 107	1 375	645	813	439	—	1 991	645
Norway	530	732	624	165	49	63	1 053	624
Portugal	30	206	76	20	—	20	345	76
South Africa	92	374	548	108	119	21	981	548
Spain	444	747	1 470	593	72	—	1 467	1 470
Sweden	2 050	2 479	3 809	739	420	54	6 291	3 809
United Kingdom	1 408	1 201	1 398	1 239	266	616	4 677	1 398
United States	6 770	14 538	7 328	3 312	4 124	2 654	23 908	7 328
*Other**	722	1 501	2 429	129	192	124	2 060	2 429
Developing countries	**4 886**	**5 003**	**2 535**	**301**	**269**	**1 006**	**3 607**	**2 535**
Latin American countries	**3 658**	**2 480**	**71**	**20**	—	—	**216**	**71**
Argentina	195	—	—	—	—	—	—	—
Brazil	60	91	—	—	—	—	—	—
Chile	30	—	—	—	—	—	—	—
Colombia	20	35	—	—	—	—	—	—
Mexico	3 012	1 919	—	—	—	—	19	—
Panama	25	—	21	—	—	—	—	21
Venezuela	291	385	—	—	—	—	—	—
*Other***	25	50	50	20	—	—	197	50
Asian countries	**1 068**	**2 075**	**2 252**	**281**	**269**	**781**	**3 036**	**2 252**
Hong Kong	70	40	50	—	75	—	75	50
India	271	250	60	20	25	40	277	60
Indonesia	97	412	328	—	—	—	50	328
Korea	323	172	556	261	159	121	1 132	556
Malaysia	—	807	883	—	—	600	1 140	883
Philippines	99	50	—	—	—	—	—	—
Singapore	30	125	70	—	10	20	50	70
Thailand	93	63	265	—	—	—	270	265
Other	85	156	40	—	—	—	42	40
Middle Eastern and African countries	**160**	**448**	**212**	—	—	**225**	**355**	**212**
Egypt	—	75	—	—	—	—	40	—
Israel	117	200	135	—	—	—	—	135
United Arab Emirates	—	20	—	—	—	25	25	—
Other	43	153	77	—	—	200	290	77
Centrally planned countries	**75**	**65**	**75**	**66**	**82**	—	**198**	**75**
China	—	65	50	—	82	—	82	50
Hungary	20	—	—	41	—	—	41	—
*Other****	55	—	25	25	—	—	75	25
International organizations******	**7 163**	**9 912**	**13 410**	**1 495**	**1 390**	**1 146**	**11 682**	**13 410**
Total	**52 985**	**78 042**	**76 329**	**14 156**	**10 944**	**7 398**	**107 370**	**76 329**

*Includes multinational organizations. **Includes unallocated. ***Includes COMECON institutions. ****Includes regional development organizations.

International bond yields

average yield of several actively traded, high quality issues with a maturity of 7 to 12 years
at or near end of month

	1982	1983	1984							
	Dec	Dec	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
United States companies										
Eurodollar	11.16	11.59	13.33	13.27	12.70	11.97	12.09	11.85	11.17	11.25
Euromark	7.24	7.34	7.55	7.48	7.74	7.40	7.30	7.19	7.08	6.95
Swiss franc	5.70	5.83	5.94	5.79	5.76	5.69	5.72	5.78	5.70	5.73
European governments										
Eurodollar	12.53	12.65	14.18	14.14	13.61	13.03	12.92	12.49	12.00	12.04
Euromark	8.10	8.12	8.03	8.07	8.31	7.94	7.78	7.61	7.43	7.39
Swiss franc	5.40	5.63	5.63	5.59	5.47	5.38	5.39	5.40	5.43	5.24
European currency unit	n.a.	11.77	11.40	11.63	11.60	11.58	11.43	11.00	10.79	10.64

Eurocurrency bank credits — by country of borrower

credits with a maturity of one year or more, publicly announced in period
millions of dollars

	1981	1982	1983r	1984			Jan-Dec	
				Octr	Novr	Dec	1984	1983
Industrial countries	**86 022**	**42 571**	**38 752**	**4 183**	**4 200**	**6 522**	**77 111**	**38 752**
Australia	1 680	4 721	2 924	698	—	580	2 709	2 924
Belgium	360	1 172	883	—	—	—	—	883
Canada	4 112	3 838	967	—	—	4 000	6 021	967
Denmark	1 661	789	1 586	104	—	101	1 248	1 586
Finland	463	631	283	—	67	—	157	283
France	3 912	5 703	1 700	547	—	218	3 420	1 700
Greece	1 039	770	1 085	300	—	—	945	1 085
Ireland	1 361	401	764	—	—	—	378	764
Italy	6 030	3 757	2 980	505	839	256	3 328	2 980
Norway	713	1 769	1 236	87	—	10	121	1 236
Portugal	1 590	1 288	913	54	—	50	907	913
South Africa	287	1 479	752	—	—	—	[illegible]	752
Spain	3 242	1 849	3 041	249	71	174	[illegible]	3 041
Sweden	1 867	649	3 198	115	300	5	4 923	3 198
United Kingdom	747	1 635	1 328	410	248	—	4 222	1 328
United States	54 784	6 516	12 948	655	1 475	953	41 148	12 948
Yugoslavia	684	719	615	40	—	—	101	615
*Other**	1 490	4 785	1 549	419	1 200	175	4 670	1 549
Developing countries	**45 264**	**41 519**	**32 937**	**1 134**	**2 704**	**4 536**	**31 555**	**32 937**
Latin American countries	**30 152**	**26 719**	**15 406**	**150**	—	**3 950**	**16 437**	**15 406**
Argentina	2 534	1 565	1 750	—	—	3 700	3 700	1 750
Brazil	5 751	5 716	4 475	—	—	—	6 525	4 475
Chile	2 204	1 194	1 319	—	—	—	784	1 319
Colombia	1 030	741	549	—	—	—	584	549
Ecuador	934	815	431	—	—	—	80	431
Mexico	7 530	7 953	5 138	—	—	—	3 885	5 138
Peru	1 407	1 069	500	—	—	—	10	500
Venezuela	7 559	6 799	237	—	—	—	—	237
*Other***	1 203	867	1 007	150	—	250	869	1 007
Asian countries	**10 288**	**8 403**	**8 828**	**929**	**1 507**	**171**	**10 185**	**8 828**
India	377	284	809	309	50	—	664	809
Indonesia	725	1 250	1 467	24	27	—	1 378	1 467
Korea	2 824	2 923	3 250	296	414	30	4 343	3 250
Malaysia	1 725	1 909	950	—	—	141	925	950
Pakistan	350	455	365	—	91	—	191	365
Philippines	1 257	635	819	—	925	—	925	819
Thailand	692	268	349	300	—	—	943	349
Other	2 338	679	819	—	—	—	818	819
Middle Eastern and African countries	**4 824**	**6 397**	**8 703**	**55**	**1 197**	**415**	**4 933**	**8 703**
Algeria	—	26	1 934	—	500	—	700	1 934
Egypt	63	353	335	25	61	—	130	335
Morocco	774	326	226	—	—	—	115	226
Nigeria	1 802	2 042	1 775	—	—	—	—	1 775
Turkey	100	277	1 106	25	500	—	1 241	1 106
United Arab Emirates	363	93	876	—	—	—	39	876
Other	1 722	3 280	2 451	5	136	415	2 708	2 451
Centrally planned countries	**1 791**	**765**	**1 212**	**166**	**433**	—	**3 370**	**1 212**
East Germany	470	8	392	40	433	—	563	392
Hungary	550	340	683	—	—	—	1 177	683
Soviet Union	25	374	68	122	—	—	926	68
*Other****	746	43	69	4	—	—	704	69
International organizations****	**302**	**160**	**1 321**	**250**	—	—	**250**	**1 321**
Total	**133 379**	**85 015**	**74 222**	**5 733**	**7 337**	**11 058**	**112 286**	**74 222**

*Includes multinational organizations. **Includes unallocated. ***Includes COMECON institutions. ****Includes regional development organizations.

Eurocurrency market size

measured by foreign currency liabilities
at end of period, billions of dollars

	1977	1978	1979	1980	1981	1982	1983		1984	
							Sep	Dec	Mar	Jun
Gross market size	748	946	1 245	1 538	1 814	2 038	2 101	2 148	2 224	2 222
Nonbanks	150	187	219	274	353	397	415	436	455	451
Official monetary institutions	76	86	122	129	114	92	87	89	87	89
Other banks	522	673	904	1 135	1 347	1 549	1 676	1 623	1 682	1 682
Eurodollars as % of gross	75	73	72	74	77	79	80	80	79	80

Central bank discount rates

at or near end of month

	1981	1982	1983	1984					Current	
	Dec	Dec	Dec	Aug	Sep	Oct	Nov	Dec	Jan 24 1985	effective since
United States	12.00	8.50	8.50	9.00	9.00	9.00	8.50	8.00	8.00	Dec 24, 84
Canada	14.66	10.05	9.96	12.39	12.28	11.71	10.75	10.16	9.66	Jan 24, 85
Austria	6.75	4.75	3.75	4.50	4.50	4.50	4.50	4.50	4.50	Jun 28, 84
Belgium	15.00	11.50	10.00	11.00	11.00	11.00	11.00	11.00	11.00	Feb 16, 84
Denmark	11.00	10.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	Oct 27, 83
Finland	9.25	8.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	Jul 1, 83
France	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	Aug 31, 77
Germany	7.50	5.00	4.00	4.50	4.50	4.50	4.50	4.50	4.50	Jun 29, 84
Ireland	17.15	14.35	11.50	13.00	13.00	13.00	14.00	13.75	13.75	Dec, 84
Italy	19.00	18.00	17.00	15.50	16.50	16.50	16.50	16.50	15.50	Jan 4, 85
Netherlands	9.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	Sep 9, 83
Norway	9.00	9.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	Jun 6, 83
Portugal	18.00	19.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00	Aug 10, 83
Spain	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	Jul 26, 77
Sweden	11.00	10.00	8.50	9.50	9.50	9.50	9.50	9.50	9.50	Jun 29, 84
Switzerland	6.00	4.50	4.00	4.00	4.00	4.00	4.00	4.00	4.00	Mar 18, 83
United Kingdom	14.37	10.00	9.00	10.38	10.38	10.38	9.38	9.38	9.38	Nov 27, 84
Japan	5.50	5.50	5.00	5.00	5.00	5.00	5.00	5.00	5.00	Oct 22, 83
New Zealand	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	Jul, 81
South Africa	13.50	15.45	18.50	22.25	22.25	22.25	21.25	21.25	22.25	Jan 8, 85
Argentina	98.50	128.54	183.75	199.94	199.94	221.31	221.31	221.31	221.31	Oct 1, 84
Korea	10.50	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	Mar 29, 82
Philippines	6.00	6.30	8.05	11.52	11.36	10.93	11.06	12.11	12.11	Dec, 84
Singapore	9.50	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	Feb 19, 82
Thailand	14.50	12.50	13.00	13.00	13.00	13.00	13.00	13.00	13.00	Dec 9, 83
Venezuela	14.00	13.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	May 18, 83

Day-to-day money rates

monthly averages

	1981	1982	1983	1984							
	Dec	Dec	Dec	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
United States	12.37	8.95	9.47	10.32	11.06	11.23	11.64	11.30	9.99	9.43	8.40
Canada	14.53	10.63	8.78	9.78	10.75	11.41	12.25	12.13	11.95	11.22	10.50
Austria	7.50	6.00	5.75	6.50	6.50	6.50	6.63	6.63	6.75	7.25	7.63
Belgium	12.78	9.43	8.65	9.13	9.80	10.22	10.72	8.79	9.57	10.24	9.02
Finland	11.30	11.50	16.70	16.53	16.80	16.53	16.50	16.10	15.75	15.48	15.07
France	15.46	12.88	12.27	12.04	12.12	11.45	11.43	11.36	11.04	11.18	10.95
Germany	10.65	6.07	5.60	5.53	5.53	5.57	5.53	5.56	5.61	5.52	5.55
Ireland	16.88	14.54	12.19	11.75	10.94	12.00	11.88	12.38	13.50	14.25	14.50
Italy	20.63	19.00	17.88	16.93	16.75	16.75	16.63	17.34	17.38	17.25	17.25
Netherlands	10.67	5.31	5.84	5.62	5.85	5.98	5.85	5.84	5.90	5.57	5.60
Norway	18.00	11.00	13.00	13.00	12.50	12.00	12.50	13.00	13.00	13.00	13.00
Spain	18.73	20.30	16.41	11.93	11.91	11.15	12.69	12.51	10.83	12.99	12.18
Sweden	13.82	8.63	11.48	11.50	13.50	12.95	13.50	13.50	12.50	10.95	12.15
Switzerland	5.38	1.25	1.88	2.25	2.13	2.88	2.00	2.50	2.00	1.50	1.50
United Kingdom	9.13	6.70	7.78	3.25	5.00	8.63	10.58	7.28	7.38	7.55	6.31
Australia	12.84	11.04	4.56	13.30	11.44	11.34	10.94	10.56	10.61	10.92	10.88
Japan	6.70	6.92	6.44	5.74	5.91	6.03	6.11	6.32	6.15	6.10	6.41
South Africa	12.75	14.15	16.06	17.25	17.25	18.06	20.30	22.63	21.50	21.50	21.13
Argentina	84.93	155.32	178.30	161.88	161.88	194.56	194.56	194.56	215.99	215.99	215.99
Brazil	103.74	150.42	184.69	198.78	226.75	283.79	242.73	285.03	328.87	244.59	272.02
Hong Kong	10.75	9.13	13.90	11.00	13.00	23.40	11.30	11.99	8.47	7.23	6.80
Korea	14.40	13.84	11.40	11.90	11.90	11.70	11.70	11.20	11.30	10.90	10.00
Philippines	14.70	16.12	31.18	33.17	40.41	39.79	29.13	34.29	40.09	32.17	15.22
Singapore	3.96	11.45	7.05	7.82	6.80	7.67	8.05	8.16	7.54	6.29	6.01

Treasury bill rates

bond equivalent yields, at or near end of month

	1981	1982	1983	1984							
	Dec	Dec	Dec	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
United States	11.90	8.15	9.28	10.13	10.29	10.67	11.06	10.64	9.69	8.71	7.99
Canada	14.41	9.80	9.71	11.29	12.11	12.73	12.13	12.02	11.46	10.50	9.84
Belgium	16.00	12.25	10.85	11.75	11.75	11.75	11.50	11.00	11.00	10.75	10.75
Ireland	17.35	14.70	11.63	12.10	12.08	13.23	12.81	12.71	12.90	14.80	15.10
Italy	21.36	19.11	16.95	14.99	14.85	14.99	14.99	15.40	15.30	14.90	14.69
Netherlands	9.75	5.63	5.63	5.63	5.88	5.75	5.75	5.50	5.63	5.63	5.88
Spain	n.a.	15.28	14.46	12.04	11.17	10.30	9.44	8.91	n.a.	n.a.	n.a.
Sweden	n.a.	12.90	11.75	11.83	14.20	14.12	14.06	13.80	11.83	12.04	11.83
United Kingdom	15.31	9.90	9.06	9.99	9.08	11.77	10.22	10.39	10.06	9.34	9.37
Australia	13.27	9.39	8.54	11.81	11.24	10.60	9.74	9.60	10.75	10.98	12.27
Japan	5.42	5.42	4.91	4.91	4.91	4.91	4.91	4.91	4.91	4.91	4.91
New Zealand	11.25	11.25	7.80	7.80	7.80	7.80	7.80	7.80	13.50	13.50	13.50
South Africa	14.55	14.62	18.43	18.64	18.44	19.69	23.02	23.02	23.03	21.82	21.94
Brazil	92.62	115.40	179.15	179.15	179.15	179.15	179.15	269.00	273.03	273.03	273.03
Mexico	33.23	57.44	53.78	51.56	50.55	50.31	50.13	48.36	47.88	47.10	47.71
Philippines	13.22	14.54	15.99	20.80	28.53	33.34	37.51	42.56	46.30	48.67	47.14
Singapore	3.03	2.74	2.59	3.00	3.01	3.00	3.01	3.01	3.01	2.85	2.82

Representative money market rates

bond-equivalent yields on major short-term (mostly 3-4 month) money market instruments other than Treasury bills, at or near end of month

	1981	1982	1983	1984							
	Dec	Dec	Dec	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
United States	12.78	8.81	9.75	10.94	11.63	11.36	11.58	10.94	9.59	8.84	8.22
Canada	15.25	9.95	9.87	11.55	12.50	13.05	12.30	12.25	11.80	10.80	10.10
Belgium	16.00	12.35	11.00	11.90	11.90	11.90	11.50	11.00	11.00	10.75	10.70
France	15.25	12.75	12.19	12.25	12.06	11.63	11.18	10.94	10.18	10.56	10.69
Germany	10.50	6.20	6.30	6.25	6.10	6.05	5.90	6.05	6.05	5.80	5.75
Ireland	18.50	15.75	12.19	12.75	12.50	13.75	13.25	13.06	13.75	15.38	15.13
Italy	21.00	19.00	17.88	16.75	16.63	16.63	16.63	17.25	17.25	17.25	17.25
Netherlands	11.00	5.25	6.00	6.13	6.19	6.44	6.38	6.19	6.06	5.94	5.75
Portugal	13.80	15.05	24.11	24.00	24.13	24.65	24.53	24.60	24.52	24.51	24.57
Spain	15.52	16.55	18.48	14.66	13.45	12.91	13.19	12.86	12.54	12.95	12.13
Switzerland	10.12	3.88	3.88	4.25	4.50	4.88	5.38	5.38	5.25	5.00	5.00
United Kingdom	15.69	10.50	9.31	9.75	9.44	12.31	10.69	10.69	10.88	9.69	9.88
Australia	16.00	10.65	9.50	13.55	12.70	12.50	11.10	11.30	11.30	11.75	12.50
Japan	6.30	6.80	6.42	6.35	6.32	6.33	6.32	6.32	6.30	6.30	6.29
New Zealand	16.05	16.75	12.10	17.00	17.00	16.50	15.25	16.75	16.25	15.25	15.25
South Africa	15.47	15.26	19.12	16.00	18.74	20.78	23.39	23.56	23.56	22.11	22.78
Chile	34.54	71.44	22.42	18.16	18.16	19.56	18.16	39.29	52.87	56.45	22.42
Hong Kong	14.18	10.13	12.84	12.38	13.13	17.06	12.83	12.78	10.13	8.76	8.26
Indonesia	14.48	18.50	19.50	19.00	20.00	21.00	21.00	21.00	21.00	20.00	19.00
Korea	15.69	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
Malaysia	9.50	8.50	9.80	9.20	9.70	10.20	10.50	10.30	15.00	10.00	10.30
Philippines	17.70	15.96	15.61	26.51	17.93	19.55	27.32	19.54	31.23	38.67	33.21
Singapore	7.81	8.69	8.44	9.13	9.00	9.06	9.03	8.81	7.38	6.69	7.00
Taiwan	10.94	9.94	7.65	6.15	7.77	7.27	6.62	7.27	5.17	6.17	8.07
Thailand	14.29	12.25	16.00	14.00	13.50	13.50	13.50	14.50	14.00	12.00	12.00

Commercial bank deposit rates

at or near end of month

	1981	1982	1983	1984							
	Dec	Dec	Dec	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
United States	12.62	8.25	9.70	11.50	11.70	11.38	11.58	10.95	9.95	8.85	8.35
Canada	15.20	9.85	9.82	11.50	12.45	13.00	12.25	12.20	11.75	10.75	10.05
Austria	9.63	6.25	6.50	6.88	6.88	6.88	6.94	7.06	7.38	7.63	7.50
Belgium	15.50	12.25	11.25	11.88	12.50	11.63	11.25	10.88	10.75	10.63	10.63
Denmark	10.00	9.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Finland	5.00	4.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25
France	9.16	8.24	7.66	7.55	7.55	7.50	7.30	7.30	7.08	7.14	7.04
Germany	9.50	6.00	5.90	5.65	5.60	5.55	5.40	5.30	5.40	5.30	5.25
Ireland	18.38	15.25	11.75	12.50	12.25	13.13	12.75	12.75	13.25	14.75	14.63
Italy	13.25	13.25	13.25	11.64	11.64	11.64	11.64	11.64	11.64	11.64	11.64
Netherlands	11.00	5.38	6.13	6.00	6.13	6.31	6.13	6.13	6.00	5.81	5.69
Norway	12.75	13.50	12.75	12.50	12.50	12.25	12.25	12.75	12.75	12.75	12.75
Portugal	14.00	15.00	21.50	21.50	28.00	28.00	28.00	28.00	28.00	28.00	27.00
Spain	11.78	12.53	12.62	12.49	12.75	12.50	12.38	12.18	11.76	11.67	n.a.
Sweden	12.65	12.15	11.70	11.25	13.65	13.70	13.55	13.45	11.50	11.50	11.45
Switzerland	8.75	3.00	3.50	3.25	3.25	4.25	4.88	4.88	4.75	4.63	4.50
United Kingdom	15.69	10.31	9.31	9.94	9.44	12.25	10.59	10.63	10.44	9.75	9.88
Australia	15.65	10.20	10.40	13.43	12.80	12.28	10.85	10.68	11.22	11.46	12.75
Japan	6.50	7.00	6.50	6.50	6.45	6.47	6.46	6.42	6.42	6.43	6.38
New Zealand	15.50	16.50	11.50	16.50	15.00	15.00	15.50	15.25	15.00	15.50	15.25
South Africa	14.75	15.25	20.13	18.78	18.65	20.50	23.25	23.50	23.58	22.00	22.88
Argentina	86.76	103.42	176.41	158.17	158.17	188.58	188.58	270.00	320.00	285.00	380.00
Brazil	110.05	21.00	23.00	22.00	22.00	20.00	21.00	27.00	26.00	26.50	27.00
Chile	36.87	57.72	22.28	18.16	18.16	19.56	18.16	15.39	58.81	66.31	22.42
Hong Kong	12.50	7.50	9.00	9.50	12.50	12.50	9.50	9.50	8.00	7.50	7.00
Korea	14.40	7.60	7.60	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Malaysia	10.00	8.40	7.75	8.70	8.83	8.88	8.95	9.37	10.08	10.02	9.58
Mexico	31.82	52.54	54.70	49.00	49.00	49.00	48.35	46.45	44.90	44.90	44.90
Philippines	13.35	14.10	14.96	15.92	20.83	19.92	20.63	23.36	29.37	32.47	31.01
Singapore	7.50	8.25	7.44	8.38	8.19	8.19	8.19	8.19	7.01	6.19	6.13
Taiwan	10.75	7.50	7.00	6.75	6.75	6.75	6.75	6.75	6.75	6.50	6.50
Thailand	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Venezuela	14.75	15.50	12.00	12.00	12.00	12.50	12.50	12.00	13.00	13.00	12.50

Domestic government bond yields

long-term issues, at or near end of month

	1981	1982	1983	1984							
	Dec	Dec	Dec	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
United States	14.33	10.61	12.00	13.58	13.75	12.97	12.69	12.32	11.86	11.64	11.61
Canada	15.27	11.69	12.02	13.93	13.81	13.41	12.89	12.63	12.18	11.81	11.66
Austria	10.37	8.81	8.02	7.99	8.06	8.09	8.10	8.09	8.10	8.07	8.04
Belgium	13.99	12.66	11.89	12.19	12.13	12.05	11.82	11.85	11.74	11.47	11.56
Denmark	20.91	20.14	12.96	15.20	15.54	15.33	15.17	15.30	14.63	14.92	14.60
Finland	10.98	10.64	11.16	11.20	11.29	11.35	10.83	10.87	10.85	10.84	10.73
France	16.44	15.40	13.96	13.82	13.99	13.91	13.58	13.05	11.92	12.36	12.70
Germany	9.71	7.90	8.38	8.29	8.25	8.27	7.97	7.83	7.53	7.20	7.17
Ireland	18.28	14.54	14.25	14.49	14.58	14.89	14.95	14.98	14.99	15.25	14.90
Italy	21.39	19.70	17.69	15.71	15.47	15.12	15.22	15.58	15.32	15.26	n.a.
Netherlands	11.28	8.16	8.58	8.52	8.68	8.69	8.50	8.26	7.94	7.65	7.72
Norway	12.37	13.32	12.50	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00
Portugal	17.39	16.63	22.11	21.82	21.90	21.19	20.69	21.05	20.84	n.a.	n.a.
Spain	16.20	15.92	18.71	18.69	18.18	17.66	17.14	16.66	15.36	n.a.	n.a.
Sweden	12.80	13.01	12.30	12.60	14.01	14.19	13.70	12.98	12.34	12.16	12.04
Switzerland	5.40	4.22	4.54	4.77	4.69	4.66	4.58	4.81	4.89	4.77	4.78
United Kingdom	15.02	10.62	9.94	10.73	10.81	11.17	10.43	10.18	10.19	9.96	10.25
Australia	15.00	13.00	13.65	14.10	14.00	13.30	13.10	13.50	13.30	13.30	13.40
Japan	8.11	7.96	7.45	7.60	7.50	7.47	7.45	7.37	7.11	6.61	6.36
New Zealand	12.55	12.84	10.50	8.50	10.06	10.25	15.03	15.31	16.65	16.30	16.60
South Africa	13.33	11.31	13.64	14.86	14.72	15.43	16.04	16.44	16.80	15.90	16.55
Philippines	13.01	13.64	14.47	18.45	19.04	12.19	20.59	38.67	27.31	34.77	18.54
Venezuela	12.50	15.00	13.50	14.00	14.00	14.00	14.50	14.00	14.50	14.50	14.00

Commercial bank lending rates to prime borrowers

at or near end of month

	1981	1982	1983	1984						
	Dec	Dec	Dec	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
United States	15.75	11.50	11.00	12.50	13.00	13.00	13.00	12.75	12.00	11.25	10.75
Canada	16.50	12.50	11.00	12.00	12.50	13.50	13.00	13.00	12.50	12.00	11.25
Austria	13.50	11.75	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25
Belgium	18.00	15.50	13.75	14.75	14.75	14.75	14.25	14.25	14.00	14.00	14.00
Denmark	15.00	14.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.50	10.50
Finland	9.84	8.95	10.18	10.43	10.48	10.48	10.49	10.54	10.52	10.60	10.63
France	14.00	12.25	12.25	12.25	12.25	12.25	12.00	12.00	12.00	12.00	11.50
Germany	13.00	8.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75
Ireland	17.25	16.50	13.75	13.75	13.75	13.75	13.75	13.75	13.75	13.75	15.75
Italy	22.50	20.75	18.75	17.00	17.00	17.00	17.00	18.00	18.00	18.00	18.00
Netherlands	12.00	6.25	7.00	6.50	6.50	6.75	6.75	6.50	6.50	6.50	6.25
Norway	13.75	14.50	13.50	12.75	13.00	12.75	12.50	13.00	13.25	13.00	13.00
Portugal	20.50	23.50	30.00	29.00	29.00	29.00	29.00	29.00	29.00	29.00	29.00
Spain	17.04	19.00	20.85	17.55	16.19	15.49	15.27	14.36	14.11	14.29	13.68
Sweden	15.00	15.00	13.50	13.50	14.50	14.50	14.50	14.50	14.50	14.50	14.50
Switzerland	8.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
United Kingdom	14.50	10.00	9.00	9.00	9.25	12.00	10.50	10.50	10.50	9.50	9.50
Australia	15.75	15.00	12.75	15.00	14.75	14.50	14.00	13.00	13.00	13.00	13.50
Japan	6.95	6.28	5.89	5.74	5.73	5.72	5.72	5.72	5.72	5.72	5.72
New Zealand	13.00	13.00	11.00	11.00	11.00	11.00	12.50	12.50	13.50	14.00	14.00
South Africa	17.00	18.00	20.00	20.50	20.50	22.00	25.00	25.00	25.00	23.50	24.00
Argentina	92.60	109.50	188.58	170.33	170.33	206.83	206.83	280.00	330.00	295.00	390.00
Brazil	152.40	23.81	24.00	26.00	26.00	22.50	23.50	32.00	30.00	30.50	31.00
Chile	61.43	85.19	35.11	33.04	32.30	32.30	30.38	35.58	78.75	95.33	79.56
Hong Kong	16.00	10.50	13.50	13.75	17.00	17.00	14.00	14.00	12.00	11.50	11.00
Indonesia	19.25	22.00	19.75	21.00	20.75	21.25	22.75	31.50	26.00	23.50	23.50
Korea	16.50	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Malaysia	12.00	12.50	11.00	11.00	11.50	11.50	11.50	11.50	12.00	12.00	12.00
Mexico	31.81	46.12	56.44	50.12	50.38	50.69	50.93	50.60	49.34	48.31	47.54
Philippines	18.00	18.00	18.00	24.00	24.00	24.00	n.a.	n.a.	n.a.	n.a.	n.a.
Singapore	11.83	9.33	8.98	9.98	10.08	10.10	10.10	10.33	10.33	9.88	9.40
Taiwan	15.25	10.75	10.25	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Thailand	17.00	16.00	16.00	17.00	17.00	17.00	17.00	17.00	17.00	16.50	16.50
Venezuela	15.50	17.00	16.00	15.00	15.00	15.50	16.00	15.00	15.00	16.00	16.00

Domestic corporate bond yields

long-term issues, at or near end of month

	1981	1982	1983	1984							
	Dec	Dec	Dec	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
United States	15.50	11.75	12.63	13.58	14.50	13.38	13.20	12.88	12.63	12.37	12.25
Canada	16.18	12.74	12.89	14.59	14.69	13.91	13.39	13.33	12.90	12.62	12.42
France	17.33	15.91	14.06	13.88	13.77	13.77	13.77	13.77	12.84	12.58	12.14
Germany	10.50	8.20	8.30	8.00	8.00	8.00	7.90	7.70	7.60	7.30	7.20
Netherlands	11.03	7.80	8.51	8.35	8.43	8.49	8.42	8.21	7.77	7.61	7.51
Norway	13.36	14.13	13.25	12.75	12.75	12.75	12.75	12.75	12.75	12.75	12.75
Spain	14.76	17.10	19.84	22.06	21.63	21.47	21.78	n.a.	n.a.	n.a.	n.a.
Sweden	12.94	13.37	12.21	12.23	12.41	12.73	12.78	13.18	13.19	13.21	12.33
Switzerland	n.a.	4.87	4.94	5.10	5.07	5.10	5.16	5.12	5.14	5.18	5.20
United Kingdom	16.55	12.34	11.57	12.11	12.69	13.06	12.15	11.74	11.79	11.45	11.64
Australia	16.50	15.00	13.50	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Japan	7.70	7.55	7.09	7.16	7.13	7.09	7.06	6.98	6.99	6.51	6.21
Korea	26.90	16.00	14.20	13.20	13.70	14.00	14.50	14.60	14.60	14.90	15.00
Venezuela	17.00	18.00	18.00	18.00	18.00	18.00	18.50	18.00	19.00	18.00	18.00

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Argentina

It is nearly a year and a half since the Argentine people went to the polls — their first opportunity to vote in a decade — and gave an overwhelming mandate to President Raúl Alfonsín. The end of military government and the electoral success of Mr. Alfonsín created not only a strong expectation of political stability but also a climate of genuine hope for economic progress. One clear message sent by voters was that Argentines had had enough of the failed policies and broken promises of the past and were ready for a new beginning — a social and business climate free from the hyperinflation, foreign exchange shortages, and stagnation that have plagued the country for decades.

In its first months in office the new government spent time assessing the gravity of the economic situation it had inherited and asked for a chance to formulate and adopt appropriate policies. This cautious attitude unwittingly created an atmosphere of uncertainty and led to speculation about the future course of events in Argentina. In the meantime inflation skyrocketed to an annualized rate of 1,500% and a $4 billion backlog of overdue trade credits and interest arrears on external debt threatened to paralyze economic activity.

The decision to adopt a conventional economic adjustment program was finally made in September of last year, when the Argentine authorities announced agreement with the International Monetary Fund on a plan of action involving fiscal, monetary, wage, and exchange rate measures. In the following months an accord was reached with private commercial banks and official lending agencies to support this program financially. The support package is made up of IMF facilities ($1.7 billion), new loans from commercial banks ($4.2 billion) and official creditors ($2 billion), and reschedulings of existing public- and private-sector external debts by banks ($16 billion) and governments under the Paris Club (almost $2 billion).

Since last September the Argentine authorities have made an earnest effort to break the country's inflation spiral and improve the external trade performance by changing the direction of macroeconomic policies. The government budgetary deficit has been cut, the growth of monetary aggregates is being contained, and mandatory wage adjustments do not attempt to push real wages higher. The results are limited so far. Progress on inflation is disappointing: monthly consumer price increases have averaged 20% during November-January, down marginally from the monthly average of 23% in the third quarter of 1984, but much higher than the 14% originally contemplated in the IMF-approved program. In the external area, export earnings are increasing slowly — a growth rate of 8% was recorded in 1984 and the 10% export growth rate that is this year's official target may not be met. The decline in Eurocurrency interest rates and less-than-budgeted import growth, nevertheless, may well compensate for a shortfall in export income and keep Argentina's current account deficit at or below the $2.2 billion for which financing is being provided.

Still missing is a commitment to a bold strategy for economic recovery and expansion in the years ahead. President Raúl Alfonsín has yet to persuade Argentines that government can no longer afford to expend all of its energy and authority settling distributional claims at the expense of efficiency and growth objectives. To put the country's rich human and natural resources to better use, key price signals, such as interest rates, wage scales, and exchange rates, increasingly must be set by competitive markets to reflect relative scarcities. The public sector, the root cause of inflation and stagnation, has to be cut back to allow for rapid growth in the private sector: the monopolies and quasi monopolies enjoyed by state-run companies and financial institutions should be ended, and ownership of many transferred via the sale of shares to the public. The tax system needs to be reformed to enable the permanent abolition of export taxes, to encourage faster expansion of agricultural production. Tariff and other barriers to imports of raw materials and capital and intermediate goods ought to be lowered in order to promote investment in competitive industries.

In Argentina, as in other major Latin American debtor countries, domestic economic and financial reforms that go beyond short-term inflation and external payments stabilization efforts are essential to promote savings, stimulate productive investment, induce a return of flight capital, and deliver strong economic growth. Without them, Argentina will not be able to realize its great potential. Perhaps newly appointed economy minister Juan Sourrouille, who recently drew up suggested guidelines for a growth- and export-oriented development strategy while heading the government's planning office, can lead such a precedent-setting reform effort.

Overview

The performance of the Argentine economy during the past several decades has been very disappointing. Prior to the Great Depression, Argentina had a reputation as a prosperous nation, and it ranked among the ten countries with the highest living standards in the world. Currently, it ranks about fortieth in terms of per capita income, trailing badly behind all the nations with which it used to be compared. Argentina's expanding wheat fields and herds of cattle once were of strategic importance to a hungry Europe. In 1929 the country's record wheat production represented almost 10% of the world's total. Nowadays Argentina harvests about 2% of the world's wheat, and competes against Europe's surplus wheat in international grain markets. The country used to be known as an important trading nation: before the Great Crash, Argentine exports and imports accounted for almost 3% of the world's total. On a per capita basis its annual export income was

Table 1

Comparative economic growth performance

	1984 GDP per capita		
		% change in real terms	
	Current $	Cumulative since 1925	Annual average since 1950
Argentina	2,630	65	0.7
Brazil	1,670	340	3.4
Mexico	2,350	200	2.2
Australia	10,840	165	2.3
Canada	13,100	265	2.2

about 85% that of Australia's and 70% of Canada's. By 1983, however, Argentina's share in world trade had shrunk to less than 0.5%, and its per capita exports were down to 20% of Australia's and 10% of Canada's.

Argentina's early prosperity was the result of an export-led growth pattern. Rising European demand for land-intensive commodities, technical progress in the form of railroads and refrigerated ships, and a welcoming attitude toward foreign capital and labor combined to induce a boom in crop production and cattle raising in Argentina which generated GDP growth of about 5% per annum from the mid-1800s until the eve of the Depression. Public support for this successful development pattern was seriously eroded, however, by the interruption of trade and capital flows brought about by the Depression and World War II, concurrent disputes with Great Britain over the fate of investments in Argentina and blocked sterling deposits, and the adoption by Britain of trade preferences for Commonwealth countries.

In the 1930s industries oriented toward the domestic market sprang up because world conditions did not justify new investments in agriculture, while measures to stem imports (devaluation and tariff increases) in the face of lower exports encouraged a degree of self-sufficiency. But in the 1940s, and especially under President Juan D. Perón, public policy reflected the mood of the time and turned openly supportive of import-substituting industrialization, spending on public works and social causes, and nationalization of foreign holdings. At the same time, Perón's populism resulted in increased urban wages and strong labor unions, food prices that were held down artificially, and industrial development strongly dependent on protectionism, cheap credit, and tax benefits.

Within a few years Perón's policies led to inflation and external payments difficulties, and corrective measures had to be adopted. Yet, neither he nor any of the many civilian and military presidents who followed him was ever able to turn back the tide of state intervention. Once the power of government to alter the relative profitability of land, capital, and labor had been amply demonstrated, the notion that the state was a prize to be captured and used to advantage became firmly entrenched among the vested interests of agriculture, industry, and unionized labor. In the last four decades as many as 40 finance ministers have held office long enough to deal with the issue of the day — the overvaluation of the currency harming agriculture, the high cost of credit damaging industry, or labor demands for higher wages — without being able to forge a consensus on longer-term development goals.

The internecine struggle to redistribute income and wealth in one direction or another, even if for a short period of time, has discouraged efficient investment in every sector of the economy, stimulated capital flight, and pushed inflation ever higher. In terms of economic growth, the cost is evident: since 1925, real per capita incomes in Argentina have risen by a cumulative total of only 65% — a yearly growth rate of less than 1%, among the lowest in the world. Meanwhile, countries such as Australia and Canada, which were then at a comparable stage of development, have seen their real per capita incomes increase by 165% and 265%, respectively (see Table 1). Poorer countries such as Mexico and Brazil have tripled and more than quadrupled, respectively, their real incomes per person.

Export performance has suffered even more. The volume of Argentine exports registered an absolute de-

Chart 1

Export volume

indices, five-year averages
1925–29 = 100

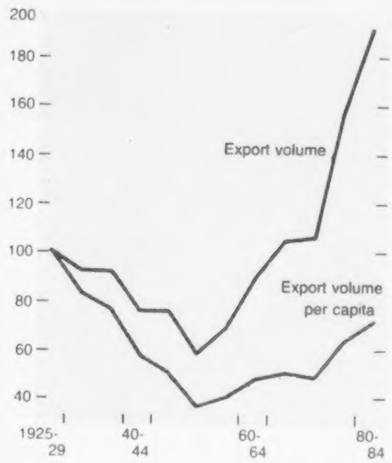


Table 2

1984 inflation performance

consumer prices
percent change from previous month

	Target	*Actual*
January	11.0	12.5
February	10.0	17.0
March	10.0	20.3
April	13.0	18.5
May	12.0	17.1
June	14.0	17.9
July	17.0	18.3
August	18.0	22.8
*September**	16.0	27.5
October	16.0	19.3
November	15.0	15.0
December	15.0	19.7
Accumulated total	376.1	688.0

*Inflation of 18% for September and the targets shown for the following months were used to derive year-end fiscal and monetary performance criteria under the IMF Standby.

cline of 40% from the late 1920s to the early 1950s and, while the export quantum has recuperated since then, it is still only double what it was 60 years ago. Export volume on a per capita basis, however, remains 25% below its pre-Depression level (see Chart 1) — one of the poorest export volume trends on record.

Recent developments

When President Raúl Alfonsín took office in December 1983 the Argentine economy was in very poor condition. An austerity program launched a year earlier by the outgoing military government, with the support of an IMF Standby arrangement, had been abandoned in midstream. Inflation had reached 400%, up from around 200% in 1982 and 100% in 1981. Real GDP had risen almost 3% — but was still more than 8% below its 1980 level. Foreign exchange reserves were down to about $1 billion, and commercial and interest arrears of over $3 billion had been accumulated. Some $21 billion in principal payments on the foreign debt either were due already or were to become due in the coming twelve months.

Initially the new administration thought that a restoration of confidence would enable it to achieve several objectives quickly and simultaneously: lower inflation, renewed economic growth, higher real wages, and a stronger balance of payments. At the beginning of each month, the authorities announced targets for inflation, interest rates on deposits and loans, and wage adjustments and then devalued the currency accordingly. Price controls were applied to major industrial companies. Legislation proposing several tax-raising measures was sent to Congress right away, but submission of a full budget was delayed until midyear. The latter kept treasury financing to the public sector in line with prior-year, inflation-eroded budget authorizations, at least for all expenditures other than salaries and interest payments. Negotiations with the IMF and foreign creditor banks and governments were started.

The results were disappointing. Fiscal and monetary policies were not convincingly restrictive: the tax measures did not go into effect until much later in the year; public enterprises and state and local governments attempted to keep up spending despite budgetary restrictions by slowing down or stopping payments to private-sector suppliers; and the central bank failed to slow the growth of monetary aggregates. Price controls were evaded by medium- and small-sized firms, and by retailers generally. As the difference between targeted and actual inflation persisted (see Table 2), workers were compensated with retroactive wage adjustments and monetary policy was loosened to accommodate them. However, because the exchange rate and interest rates were not adjusted retroactively, the currency lost competitiveness and interest rates became steadily negative in real terms. Once inflation had accelerated beyond 27% in September, versus an announced target of 16%, the government abandoned the effort in favor of the more conventional stabilization program now being applied.

The policy package developed in conjunction with the IMF gives impetus, first, to the government's early attempt to cut the public-sector deficit. The available figures would suggest that, in 1983, the fiscal imbalance was the equivalent of nearly 16% of GDP, down slightly from the prior year (see Table 3). In reality, the situation was much worse since the deficit of the nonfinancial public sector was well over 20% of GDP — if the published fiscal accounts included the expense

Table 3

*Public-sector operations**

percent of GDP

	1982	*1983*	*Est. 1984*
Revenues	31.7	34.0	33.1
Taxes	18.2	18.8	18.7
Other	13.5	15.2	14.4
Expenditures	48.6	49.9	43.5
Personnel	9.6	12.6	13.7
Interest payments	11.9	5.8	5.3
Domestic debt	5.5	1.0	0.4
Foreign debt	6.4	4.8	4.9
Investment	7.6	8.0	6.5
Other	19.5	23.5	18.0
Deficit	16.9	15.9	10.4

*Budget-execution basis covering most of the nonfinancial public sector, but excluding extrabudgetary spending and losses incurred by the central bank from its activities as financial agent to the treasury.

Table 4

Monetary base

percent change from previous twelve months

1983	
September	250.7
December	356.2
1984	
March	479.0
June	481.4
September	487.7
December	435.5
1985	
January	428.0

Table 5

Industrial wages and production

in real terms
percent change from previous year

	Wages	*Production*
1981	—7.0	—15.9
1982	—5.1	—4.8
1983	27.0	10.8
1984 est.	20.0	4.5

to the central bank of having to provide interest-free financing to the treasury while paying interest on banks' reserve requirements, mounting losses incurred by many municipalities and state companies not covered by the reporting system, and unspecified, extrabudgetary spending by the central government. The authorities initially favored raising revenues as the means of lowering the fiscal deficit; they would hold down expenditures mainly as an interim step. To this end, Congress approved a 5% employer tax on wages in April and a 7½% employer contribution to social security in August, and taxes on gasoline were increased over 70% in real terms. The total anticipated yield on a full-year basis was 4% of GDP.

As the end of 1984 neared, however, it became evident that these gains to the treasury were being offset by losses of revenues from most other taxes — especially those levied on value added and on personal and corporate incomes — and that the emergency spending cuts made at the beginning of the year would have to be maintained. As shown in Table 3, it is estimated that the 1984 fiscal deficit, defined narrowly, was cut by around 5½% of GDP because investment outlays were pared and transfers to public enterprises and state and local governments were slowed down. Under the agreement reached with the IMF, this deficit will have to be reduced further: by approximately 4% of GDP to about 6%-7% of GDP (or 5½% of GDP as measured by the Fund on a so-called cash basis, as opposed to the accrual basis that is used in Argentina).

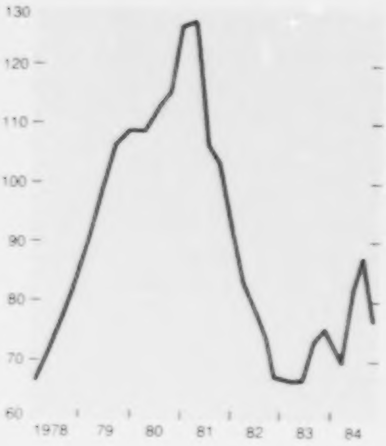
The improvement in public-sector finances already has allowed for a deceleration of monetary growth. The monetary base, which expanded during 1983 and early 1984 at an increasing rate that surpassed 500% last April, has been rising somewhat less rapidly in recent months — a year-over-year rate of around 430% as of January (see Table 4). The targets agreed with the IMF for central bank credit creation during the first quarter of 1985 imply, given an assumed evolution in net foreign assets, that the growth of the monetary base will decelerate substantially more.

Interest rate policy is becoming more realistic. Since mid-1982, the central bank had been setting maximum interest rate levels on most banking deposits and loans consistently below actual and expected inflation. This had discouraged financial savings overall and particularly through the banking system, spawning a parallel, intercompany money market in which interest rates fluctuate freely. Now, as an integral part of the Fund program, the authorities have pledged to set the regulated interest rate on deposits approximately equal to inflation, but no less than half a percentage point below the monthly inflation rate on a quarterly average basis. Since last September the regulated deposit rate has been increased from 15½% per month to 18%. They have also agreed to give banks more leeway to issue instruments at market-determined interest rates, mainly indexed accounts and banker's acceptances.

Wage policy also has been improved since last September. From mid-1982 until that time, policy under both the outgoing military government and the incoming civilian administration had sought to increase real wages in the private and public sectors through generous, mandatory pay raises in excess of inflation bearing little relation to output and productivity gains. Table 5 shows the figures for industry. In the two years after the second quarter of 1982, for example, real wages in industry had been pushed up by about 65% while industrial production had

Chart 2

Real effective exchange rate
index, 1980-82 = 100



risen only 25% — at the expense of accelerating inflation, of course, because the central bank accommodated the impact on costs in private and public enterprises. In recent months, however, the authorities have stopped attempting to raise real wages further, and are granting monthly adjustments and catch-up increases in a manner that is increasingly consistent with the goal of reducing inflation. In the public sector salaries have begun to fall in real terms.

Exchange rate policy is another key element of the IMF-supported economic program. In the two years following the first quarter of 1981, the Argentine currency was devalued very sharply on a real effective basis to compensate for the unprecedented overvaluation that had occurred from 1978 to 1981 (see Chart 2). This exchange rate correction was instrumental in improving the country's external trade performance, from a peak deficit of $1.4 billion (FOB/FOB) in 1980 to a $3.7 billion surplus in 1983. But the gain in competitiveness began to erode in 1984 as the pace of devaluations was determined by targeted rather than actual inflation. This began to be corrected in October: then, and again in November, the exchange rate was adjusted by more than the increase in prices, and the authorities have committed to continue devaluing at a minimum by Argentina's inflation differential, but as much as necessary to attain the balance of payments objectives of the program, in particular a current account deficit no higher than $2.2 billion.

According to the official estimates prepared almost six months ago and embodied in the program supported by the IMF and foreign creditors, exports are to rise 10% in 1985, to $9.6 billion (see Table 6). However, the most recent estimates made by private and official sources point to a somewhat slower growth rate from a lower 1984 base, especially in view of weaker commodity prices. Nevertheless, even though modest import growth is still envisioned from a similarly lower-than-anticipated 1984 base, it is likely that the current account deficit will be smaller than the official forecast. The reason is the drop in Eurocurrency interest rates which, if sustained, could save Argentina as much as $1 billion relative to the interest bill budgeted six months ago.

The challenge ahead

The policy decisions taken in the past six months are evidence that the Argentine authorities, after a slow start early in 1984, are intent on bringing the country's extremely rapid inflation under control and improving its external payments position. The program prepared in conjunction with the IMF, by attacking the fiscal, monetary, and wage policy roots of inflation, offers an opportunity that must not be missed — as it was two years ago, under far less auspicious political circumstances — to break the vicious cycle the economy is in.

At the same time, the stabilization

Table 6

Current account
billions of dollars

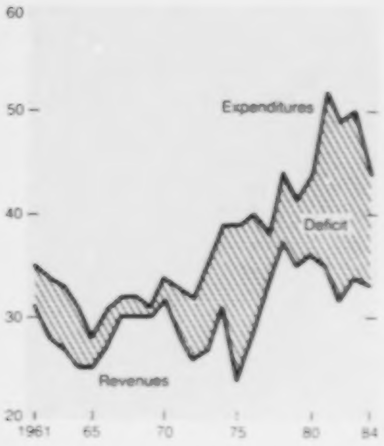
		Official estimate*		Est.	Proj
	1983	1984	1985	1984	1985
Merchandise exports	7.8	8.7	9.6	8.4	9.0
Merchandise imports (FOB)	—4.1	—4.3	—4.7	—4.1	—4.4
Trade balance (FOB/FOB)	3.7	4.4	4.9	4.3	4.6
Services and transfers, net	—6.2	—6.6	—7.1	—6.6	—6.5
Interest payments scheduled	—5.4	—5.8	—6.4	—5.7	—5.5
Current account balance	—2.5	—2.2	—2.2	—2.3	—1.9
Memorandum:					
Total external debt (including arrears) at year-end	46.0	48.4	50.1	48.5	50.0
as % of total exports**	450	454	444	454	444

*As of September 1984. Official estimate restated with imports on FOB rather than CIF basis.
**Total indebtedness at midyear as percent of exports of goods and services.

Chart 3

*Public-sector revenues and expenditures **

percent of GDP



* Coverage limitations same as in Table 3

program constitutes only a beginning: it is not the answer to six decades of stagnation in Argentina. This stagnation, now compounded by triple-digit inflation, is the result of highhanded government intervention in one key market after another, on behalf of one pressure group or another, which over time has destroyed the climate and incentives necessary for productive investment. The economic system of Argentina, characterized recently by one observer as "socialism without planning and capitalism without markets," must be reformed in order to lay the base for renewed economic growth.

An essential requirement of such a reform is a recognition that prices throughout the economy must respond to economic forces rather than bureaucratic dictates — that markets need deregulation to function effectively. At present, most markets in Argentina are strikingly distorted and segmented: there is an official exchange rate for approved transactions and a parallel quotation (which normally has been from 15% to 30% higher) for nonapproved transactions; a legal market for bank deposits and loans usually at negative interest rates in real terms, alongside an intercompany financial market in which positive rates prevail; and a conventional market for labor, goods, and services in which wage decrees apply, price controls are imposed, and taxes are levied, while an underground economy flourishes with higher, largely untaxed returns to labor, capital, and entrepreneurship. This situation, wherein officially sanctioned markets provide the wrong signals and incentives, cannot be allowed to continue; it creates inefficiencies, fosters speculation, and undermines the legal and moral foundation of economic interaction. Until prices in regulated markets are allowed to move to supply and demand equilibrium, foreign exchange will appear to be in short supply, financial savings will seem to be inadequate, and the country's recorded, taxable production will expand by less than its potential.

Aside from deregulation of markets, there should be a cutback in the size of the public sector in Argentina. The available statistics show that government expenditures have risen from the equivalent of just over 30% of GDP in the 1960s and early 1970s to 50% of GDP at present (see Chart 3). This trend underestimates the growth of the public sector because the sample used to derive these data excludes, for example, spending by all states and municipalities other than Buenos Aires, the approximately 250 mostly small- and medium-sized companies (including a veritable military-industrial complex) that are now fully or partly owned by federal, state, and local governments, and the activities of government-operated commercial, investment, housing, and development banks that together capture half of all deposits in the financial system.

Argentine governments to date have tried to raise revenues to cover this boom in public expenditures. More often than not, the attempt has failed and sizable, inflationary deficits have ensued — financed through either the printing press or external indebtedness. Therefore, the time has come to explore avenues to reverse the trend in spending.

As a first step, the scope of public enterprises ought to be limited to make room for private investment — as is being done, to some degree, in the area of petroleum exploration. There is little economic justification for government to have monopoly powers or to exercise so dominant a position in leading growth areas such as communications, petroleum, shipping, banking, natural gas, insurance, metals, petrochemicals, and mining. Moreover, state com-

Table 7

Real GDP

percent change from previous year, except where noted

	1981	*1982*	*1983*	*1984*	
				*Jan.-Sept.**	*% of total*
Total GDP	—6.2	—5.1	3.1	2.5	100.0
Agriculture	2.4	7.3	0.9	3.7	14.1
Manufacturing	—16.0	—4.7	10.8	4.3	21.5
Services and other	—4.4	—7.4	1.2	1.7	64.4
Consumption	—3.0	—10.7	3.7	5.6	81.9
Investment	—23.1	—15.3	—8.4	—17.1	11.6
Exports	7.9	1.5	8.2	3.7	15.0
Imports	—3.8	—42.1	—4.7	0.1	8.5

*From previous Jan.-Sept.

panies and financial institutions could be privatized by sales of shares to the public, thus moving away from the present situation in which no major public enterprise issues stocks that are traded. Privatization, even if partial, could improve the capitalization of state-controlled companies, increase their accountability, and spur them to seek profitability. Finally, the oversized federal, state, and local bureaucracies ought to be trimmed down. Currently, there are more than twice as many federal employees relative to the labor force in Argentina than in Canada or the United States, and the situation at the state and local levels is probably much worse.

The other major aspect of structural reform is removal of the anti-export bias in the tax system and the import tariff regime in Argentina. Taxes on most agricultural exports, which were increased in late 1984 to a maximum of 31%, have become the third most important source of revenues to the national treasury, exceeded only by value-added and gasoline taxes. Although tax rates have since been lowered somewhat (to a range of 18%-25% for most grains), it is hard to lessen dependence on export taxes at a time when other tax collections are eroded by inflation and are falling in relation to GDP. Nevertheless, export taxes eventually must be abolished if agriculture is ever to realize its full potential. Taxes on exports are harmful because, as they apply equally to existing and new production for export, farmers are deterred from paying the higher cost of bringing marginal lands into cultivation and improving the soil through fertilization and irrigation. The tangible benefit from their removal is illustrated by the short-lived experience of 1976-80, when export taxes were eliminated and grain production rose within a year from an average of about 25 million tons to over 30 million tons. On an interim basis, export taxes could be applied less heavily or not at all to agricultural exports above a benchmark level. There is no question, however, that the solution is for export taxes to be phased out in favor of assessing and collecting realistic taxes on agricultural income and property.

To boost production and exports of agricultural commodities and manufactured goods, tariff and other restrictions on imported inputs (raw materials and capital and intermediate goods) will have to be eliminated. Traditionally, farmers in Argentina have been forced to pay prices for tractors, pesticides, fertilizers, and the like substantially above international levels because of protection intended to benefit local industries. This retarded technical progress in agriculture and kept yields low. Last year the government abolished the import duty on fertilizers and certain chemicals. This promising measure should now be followed by equally warranted reductions in import barriers to remaining farm inputs and, increasingly, to industrial inputs. In addition, there is need for a comprehensive export-promotion regime based on the recently passed legislation including a simplified incentive system, an export information network, and less cumbersome administrative procedures. Finally, the authorities should put into effect their ideas regarding a narrowing of the tariff range to a suggested 10%-50% and the lowering of tariffs to a weighted average no higher than 25%.

A far-reaching reform of the Argentine economic system appears justified, not only by the stagnation exhibited during several decades, but in view of two more recent, deeply disturbing trends: a collapse in investment expenditures and a massive flight of capital. As shown in Table 7, capital formation in Argentina has been falling steadily in recent years — by a cumulative total of over 50% in real terms since 1980, from the equivalent of 23% of GDP then to under 12% of GDP in the first nine months of 1984. It is estimated that current rates of investment are not even sufficient to cover the depreciation of machines, equipment, and office buildings.

In the meantime, capital has been hemorrhaging out of the country. In the six years from end-1977 to end-1983, Argentina's total external debt rose $36.3 billion, from $9.7 billion to $46 billion (including arrears). Net inflows of foreign direct investment during this period were $2.7 billion, and the central bank's international reserves position was eroded by $1½ billion (see Table 8). Overall, therefore, $40½ billion was made available to finance deficits on current account which totaled, in fact, almost $13 billion during the same six years. Part of the $27½ billion difference no doubt is accounted for by contraband imports and large-scale acquisitions of military hardware that were not recorded as imports in the current account of the balance of payments. The bulk, however, corresponds to capital flight, of which some $5½ billion is deposited directly with banks in the industrial countries (as derived from BIS and other statistics), some $3-$5 billion reportedly circulates freely in dollars within Argentina, and the rest is invested in securities and real estate overseas (including in neighboring Uruguay).

Rapid, sustainable economic growth will not be possible in Argentina until domestic investment is revived and a good portion of the capital that left the country is repatriated to provide the savings that are needed. And for this to happen, markets must be deregulated, the public sector must be cut back, and the foreign trade regime must be liberalized.

Many opportunities for productive investment could open up. The agricultural sector, for instance, has enormous potential, especially if industrial countries cut back protection of their own inefficient agriculture. A realistic exchange rate, the absence of export taxes, and duty-free access to imported inputs probably could lead to a 50% increase, in a very short time, in production of grains and oilseeds now averaging 40 million tons per year. The additional 20 million tons would just about double the country's export surplus and bring in an additional $3 billion per annum.

The main reason for optimism in this regard is not the availability of land that could yet be planted, but the low crop yields which if improved could deliver dramatic results. Crop yields in Argentina have increased slowly during the past two decades by international comparison because the combination of export taxes and tariffs on imported inputs has not made it economical for farmers to take full advantage of modern production technologies — especially the application of chemical fertilizers. Yields for wheat and corn in the five agricultural years prior to the current 1984/85 harvest, for example, averaged 28% and

Table 8

Sources and uses of foreign exchange

billions of dollars

	Cumulative 1978-1983
Sources	40.5
Foreign indebtedness	36.3
Foreign investment	2.7
Utilization of foreign exchange reserves	1.5
Uses	12.9
Current account deficits	12.9
*Difference**	27.6

*Accounted in unknown proportions by capital flight, contraband imports, and unrecorded defense purchases.

Table 9

Wheat and corn export potential

annual averages for harvest years 1979/80-1983/84

	Wheat	Corn
Area harvested		
(millions of hectares)	6.0	3.0
Yields (tons per hectare)	1.70	3.15
United States	2.37	6.40
Production (millions of tons)		
Actual	10.2	9.4
*Potential**	14.2	19.2
Potential exports		
Volume	4.0	9.8
*Earnings***		
($ millions)	520	1,323

*Area harvested in Argentina times yields in the United States.

**At 1984 realized prices of $130/ton of wheat and $135/ton of corn.

Table 10

*Export orientation of industry**

industrial exports as percent of value of industrial output for 1980, except where noted

Argentina	7.4
Greece	17.2
Australia	19.4
*Philippines**	22.7
Portugal	24.4
Korea	27.6
Canada	31.0
*South Africa**	33.7

*1979.

Table 11

Petroleum balance

thousands of barrels per day

	1982	1983	Est. 1984
Production	518	524	508
Imports	17	2	3
Exports	47	39	31
*Consumption**	488	487	480
Memorandum ($ millions):			
Imports	217	27	43
Exports	459	294	297

*Including stock changes and refinery gains.

51% below yields obtained in the United States. Since the climate and soils of Argentina are similar to those in wheat- and corn-growing areas of the United States, the application of comparable technology could drive the country's yields up to U.S. levels. Table 9 illustrates what this could mean for Argentine export earnings in a hypothetical exercise using actual 1984 export prices for wheat and corn and ignoring the relatively modest cost of imported inputs. The difference between the actual Argentine yields for just these two commodities and U.S. yields comes to over $1.8 billion — virtually enough to eliminate the country's deficit on current account.

There is growth and export potential in Argentine industry as well. Despite volatility in exchange rate and other policies, the country doubled its exports of manufactures in real terms between 1970 and 1982. Since then, however, those exports have fallen from about $3 billion in 1982 to under $2½ billion in 1984. The potential lies mainly with natural-resource-based industries and the machinery sector, which makes use of a relatively abundant, skilled labor force. For illustrative purposes, this potential can be quantified in two simplistic ways. One approach is to draw on past performance and measure the hypothetical value of total manufactures exports if every subsector of industry were to have sold abroad as much as it did in its respective, post-1970 peak year. According to this calculation, exports of Argentine manufactures should have reached $5 billion per annum during 1982-84, rather than $2½ billion. An alternative approach draws on international comparative experience and measures the hypothetical value of manufactures exports if Argentine industry were to become as export-oriented as industry in other countries. As shown in Table 10, in 1980 industrial exports represented a mere 7.4% of the value of total Argentine industrial production, down slightly from a peak export orientation of 8.5% in 1978. If supportive policies had encouraged that ratio to have reached, for example, Australia's 19.4% or Canada's 31%, the value of Argentine industrial exports in 1980 might have been $7.6 billion or $12.2 billion, respectively, instead of the actual $2.9 billion. Recent Brazilian experience demonstrates how successful, in actual practice, a country can be in the export of manufactures given the appropriate policy environment.

There is a great deal of promise in the energy sector. Argentina has been a small (less than $300 million per annum) net exporter of petroleum since 1981 and, while the country imports natural gas from Bolivia, this is not out of need but strictly a foreign policy consideration — providing aid to a cash-starved, politically troubled neighbor. This instance of political intrusion into economic affairs, which costs Argentina almost $400 million a year, typifies how energy development has been handled. The country has very large reserves of natural gas and uranium, considerable deposits of petroleum and coal, and ample hydroelectric potential, but nationalism and state intervention have stymied their rational exploitation. Government has had a monopoly in virtually the entire energy field; private companies have been invited to drill for petroleum only when the long-standing goal of self-sufficiency has been seriously endangered. Pricing policies have consistently favored consumers over producers, discouraging production and conservation efforts. For example, as of late 1984 the state oil company needed subsidization because it was receiving less than $12 per barrel for newly extracted crude while its production costs, inflated by inefficiency, averaged $16 per barrel; consumer prices for refined products other than gasoline were well below international levels, implying yet another large subsidy; and gasoline prices, although high at around $2 per gallon, were in reality too low to cover producers' refining and distribution costs since over 70% of the pump price was taken by the government in the form of taxes.

The authorities at first suspended some 21 exploration and production contracts with private companies but by now have renegotiated the most important. The aim of onshore and offshore exploration is to increase the country's reserves of crude, which have remained unchanged for over a decade at about 2.4 billion barrels, the equivalent of 13 years of production at the 1984 average of 508,000 barrels per day (see Table 11). Still, the climate for an all-out effort is not yet right because pricing policies are barely attractive relative to the costs and risks entailed, and because the acreage made available to private companies is usually not the most promising. The lesson from experience in the late 1950s, when private investment was welcomed warmly, proven reserves were increased by 50% within a few years, and the country became free from its dependence on imported petroleum, is that with appropriate incentives private initiative can tap Argentina's riches fairly quickly. Likewise, if government were to make room for private development of the country's abundant reserves of natural gas — some 25 trillion cubic feet, an amount comparable to Great Britain's reserves and equivalent to a third of Mexico's reserves — Argentina could soon decrease its dependence on petroleum for almost 60% of total energy consumption and become a major exporter of natural gas to Brazil, Chile, and Uruguay. Finally, a more realistic pricing structure for all sources of energy would spur conservation and curb the sharp upward trend in the ratio of total energy consumption to GDP, which rose 35% from 1973 to 1983. If, for example, that ratio had increased half as fast, and the growth in non-oil energy production (mainly hydroelectric power and natural gas) had remained the same, by 1983 Argentina's oil consumption would have been about 100,000 barrels per day less than it actually was, and there would have been an exportable surplus of oil worth $1 billion.

Reforms that unlock the potential income and export growth that lies within the agricultural, industrial, and energy sectors of Argentina will put an end to the stagnation in living standards and restore the country's image and creditworthiness. The starting point is unenviable. The present government inherited financial markets that provide incentives to borrow but not to save; a regulatory structure and an overextended public sector that limit the investment horizon of the private sector and indirectly stimulate capital flight; and an export tax and an import tariff regime that are not supportive of internationally competitive resource allocation. It also inherited an external debt of $46 billion, equivalent to four-and-a-half times the annual value of total exports — probably the heaviest debt burden in the world. This means if the debt-to-exports ratio is to fall to a more tolerable level of 200% in 1990, export earnings would have to increase steadily by at least 16% per year from now on and no more indebtedness could be contracted beyond the $50 billion anticipated for end-1985.

This is a tall order for any country. Argentina can meet it, however, if in addition to pursuing short-term stabilization policies as it is doing now, it adopts the kind of growth- and export-oriented reforms suggested here. There are not many other countries where measures that put human and natural resources to productive use could yield quicker or greater returns.

Statistical appendix

For key to data in tables see September 1984 issue.

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Information herein is from sources considered to be reliable but is furnished without responsibility on the part of Morgan Guaranty Trust Company.

Nominal effective exchange rates

Index numbers, 1980-82 average=100. Each index shows a currency's trade-weighted appreciation or depreciation measured against 15 other major currencies, using averages of daily noon spot exchange rates in New York and bilateral trade weights based on 1980 trade in manufactures. Annual figures are calendar year averages.

	United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Belgium	Neth-erlands	Spain	Swit-zerland	Den-mark	Norway	Swe-den
1980	90.7	100.4	95.5	96.0	106.5	100.0	108.4	99.8	99.4	105.9	100.2	106.5	95.4	105.1	98.2	103.9
1981	99.5	100.2	105.8	104.0	100.4	97.2	98.8	102.1	98.9	101.8	97.1	99.4	98.3	99.2	100.1	103.3
1982	109.8	99.4	98.6	100.1	93.1	102.8	92.8	98.1	101.7	92.3	102.7	94.1	106.3	95.7	101.7	92.8
1983	114.2	100.8	107.8	92.0	87.3	107.8	90.3	91.6	103.6	90.0	105.0	78.4	111.5	96.4	99.4	82.2
1984	122.4	97.3	113.0	94.2	84.4	107.4	86.7	85.1	103.6	88.9	104.0	77.4	110.5	93.9	97.8	84.3
1984																
February	117.3	100.2	111.9	97.3	84.7	108.0	87.0	91.4	103.5	88.3	104.3	77.1	112.2	94.0	99.0	82.9
March	115.4	98.0	114.7	97.2	85.3	109.0	87.2	89.8	104.2	89.0	105.0	77.2	111.7	94.6	98.7	83.5
April	116.7	97.5	115.7	95.1	85.2	108.6	87.3	88.9	104.1	89.0	104.8	78.1	111.3	94.0	98.9	83.7
May	119.5	96.8	114.6	95.1	84.6	107.7	86.9	89.1	103.8	88.8	104.4	78.4	110.9	93.6	99.1	83.6
June	120.2	96.2	113.3	93.0	84.9	108.2	87.0	88.6	104.2	88.9	104.6	78.0	110.1	93.8	99.1	83.4
July	124.2	95.4	110.8	90.3	84.6	107.7	87.3	87.7	104.1	89.3	104.0	77.3	107.9	93.7	97.4	84.4
August	124.0	97.0	111.4	91.9	84.3	107.3	85.6	87.9	103.8	89.3	103.8	76.6	108.8	93.6	97.1	84.6
September	127.3	96.7	112.0	92.1	83.6	106.2	85.9	87.1	103.2	88.9	103.1	76.9	109.3	93.2	96.9	85.6
October	128.5	96.6	112.0	93.6	83.7	106.3	85.7	85.3	103.2	88.7	103.2	77.0	109.8	93.4	97.1	85.6
November	126.8	96.5	112.5	95.0	84.0	106.7	85.6	85.2	103.4	89.3	103.5	77.4	110.2	94.2	95.5	85.1
December	129.5	96.7	112.0	94.8	83.6	106.1	86.0	83.7	103.2	89.3	103.0	77.8	109.5	94.5	95.5	85.0
1985																
January	132.2	96.9	110.6	93.9	84.1	106.5	86.6	81.2	103.5	90.0	103.2	69.9	107.9	95.1	95.8	85.1
January 4	131.3	96.9	111.0	93.4	83.4	105.8	86.3	82.5	103.2	89.7	102.9	78.0	108.9	94.8	95.4	85.0
11	131.7	97.1	110.2	93.5	83.6	106.2	86.3	81.5	103.4	89.9	103.0	78.7	108.0	95.0	95.8	85.0
18	132.4	96.9	110.5	94.4	83.6	106.1	86.6	80.6	103.7	89.8	103.0	78.1	107.5	95.1	95.8	84.9
25	132.1	96.9	110.7	93.9	83.9	106.4	86.3	80.2	103.5	90.0	103.1	78.0	107.5	95.3	95.8	85.2
February 1	132.3	96.7	110.3	93.9	84.0	106.3	86.2	80.7	103.6	90.0	103.0	78.0	107.1	95.3	95.8	85.3
8	134.3	96.4	109.0	91.0	83.7	105.9	86.2	81.4	103.7	89.9	102.3	78.1	105.9	95.1	96.1	85.5
15	135.5	96.3	109.7	88.1	83.5	106.3	85.8	81.0	103.4	89.3	102.3	77.8	105.3	94.5	95.9	85.5

Real effective exchange rates — industrial countries

Index numbers, 1980-82 average=100. Each index is the corresponding nominal effective exchange rate adjusted for differential inflation in wholesale prices of nonfood manufactures. Underlying price data are partly estimated. Index revisions reflect revised price information or, less frequently, adoption of new price indices to measure inflation in one or more countries.

	United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Belgium	Neth-erlands	Spain	Swit-zerland	Den-mark	Norway	Swe-den
1980	89.4	99.6	103.0	93.0	102.2	103.5	103.5	99.9	100.2	107.5	99.9	100.9	98.7	103.5	96.6	101.2
1981	100.6	100.0	104.6	102.7	100.1	97.3	98.7	102.3	99.1	100.3	97.6	99.4	98.7	99.2	100.9	102.1
1982	109.9	100.4	92.3	104.3	97.7	99.2	97.8	97.9	100.7	92.3	102.5	99.8	102.6	97.3	102.5	96.7
1983	112.7	103.1	96.6	100.0	95.9	99.3	100.1	92.0	101.6	92.1	101.8	90.6	105.3	98.8	101.2	91.5
1984	118.2	101.2	97.6	105.0	96.2	96.5	101.1	89.2	102.5	90.6	100.2	95.1	102.0	96.4	100.1	96.9
1984																
February	114.1	103.5	97.7	107.4	95.5	97.7	100.0	91.9	102.9	90.0	101.2	92.9	104.3	96.5	101.5	94.7
March	111.9	101.7	99.9	107.3	96.4	98.5	100.6	90.6	103.6	90.6	101.6	93.7	103.9	96.2	101.0	95.7
April	113.0	101.5	100.4	105.2	96.5	98.0	101.2	89.9	103.0	90.7	101.3	95.0	103.2	95.5	101.0	95.5
May	115.7	100.5	99.1	105.6	97.0	96.8	101.1	90.1	102.4	90.9	100.5	95.5	101.7	95.5	101.7	95.7
June	116.3	99.9	97.7	103.6	97.3	97.0	101.3	89.6	102.5	90.8	101.0	95.8	101.1	97.1	101.2	95.3
July	119.9	99.5	95.3	101.1	97.2	96.6	101.7	88.9	102.9	90.9	100.4	95.2	98.8	95.3	99.0	97.0
August	119.4	101.1	95.9	103.2	96.8	95.9	101.3	89.2	102.7	91.2	100.0	94.4	100.3	95.8	98.5	97.7
September	121.6	101.2	96.7	103.2	95.9	95.1	100.8	88.5	101.8	90.8	99.3	95.7	100.6	97.1	99.4	98.9
October	123.6	100.4	96.0	105.0	95.7	95.2	101.3	86.6	101.5	90.2	98.9	96.0	101.3	96.6	100.1	99.1
November	122.0	100.4	96.2	106.8	96.2	95.3	101.4	86.7	102.3	90.6	99.2	97.1	101.5	97.9	98.2	98.8
December	124.2	100.9	95.6	106.7	95.8	94.9	102.3	85.2	101.8	90.5	98.7	97.4	101.1	98.1	98.0	98.8
1985																
January	126.8	101.0	94.3	105.8	96.3	95.1	103.5	82.8	102.1	90.9	98.6	87.8	99.7	99.0	98.7	99.0

Real effective exchange rates — developing countries

Index numbers, 1980-82 = 100

	Argentina	Brazil	Chile	Colombia	Mexico	Peru	Venezuela	Hong Kong	Indonesia	Korea	Malaysia	Philippines	Singapore	Taiwan	Israel	Turkey
1980	116.4	84.8	95.3	94.7	103.7	93.1	91.3	98.4	89.6	95.9	96.2	94.7	98.6	100.9	92.9	102.9
1981	108.0	103.5	108.1	100.5	112.4	103.2	99.6	99.5	99.6	101.2	99.5	100.5	102.7	102.6	99.3	102.4
1982	76.1	112.2	96.5	104.8	83.9	103.7	109.1	102.6	110.8	102.9	104.8	104.8	98.7	96.5	107.7	94.6
1983	71.3	85.6	88.8	103.9	85.6	97.5	116.0	97.0	95.6	97.3	113.0	94.5	97.1	93.1	119.5	95.3
1984	79.4	85.5	89.9	98.7	103.5	99.7	84.4	101.5	96.6	95.9	119.4	107.3	95.8	95.5	118.1	87.7
1984																
January	71.8	85.5	89.2	100.7	96.9	104.0	124.7	98.7	97.7	96.3	118.0	105.8	96.2	94.3	120.1	88.2
February	71.9	85.7	88.8	99.6	98.0	104.4	108.8	97.3	96.6	95.3	115.5	105.4	95.8	93.0	118.6	85.1
March	75.3	80.2	87.3	99.2	96.5	102.8	71.0	95.3	93.7	93.8	115.8	104.2	95.4	91.8	114.6	83.0
April	80.4	79.0	88.8	99.3	99.3	100.6	71.6	96.5	93.9	94.0	116.6	106.3	95.8	92.6	115.0	83.2
May	84.0	80.8	89.9	99.7	102.1	99.8	74.0	98.1	95.6	94.8	118.3	111.6	95.9	94.0	116.7	85.7
June	83.5	83.3	90.3	98.9	103.2	98.8	77.2	98.6	96.5	95.1	118.7	98.0	95.2	94.5	117.5	85.5
July	85.9	86.3	91.4	99.4	104.6	98.4	79.6	100.9	98.9	96.0	121.0	101.5	95.6	96.6	117.7	87.1
August	86.1	86.2	92.5	98.4	104.2	99.4	83.5	101.1	97.3	96.2	121.6	103.2	96.2	97.4	119.1	89.4
September	88.8	88.6	93.0	99.3	105.6	99.7	82.7	104.9	97.2	97.6	124.0	114.5	96.8	98.8	122.0	90.3
October	82.1	89.9	89.7	98.1	107.6	98.9	83.8	108.6	97.4	97.2	121.4	113.3	96.0	98.1	122.1	91.4
November	73.0	88.5	88.3	96.1	108.7	96.0	84.5	108.2	95.8	96.3	120.0	109.8	94.9	96.6	119.2	91.0
December	76.1	91.5	87.1	95.6	110.2	93.3	85.3	110.4	98.1	97.2	121.2	115.4	95.6	97.8	114.4	92.0

International banking market size

at end of period, billions of dollars

	1980	1981	1982	1983			1984	
				Jun	Sep	Dec	Mar	Jun
Gross claims								
Eurocurrencies, on residents and nonresidents	**1 542**	**1 904**	**2 124**	**2 114**	**2 179**	**2 246**	**2 332**	**2 315**
On nonbanks	425	573	701	645	654	666	686	672
On banks	1 117	1 331	1 424	1 469	1 525	1 580	1 646	1 643
In dollars	1 154	1 489	1 683	1 676	1 737	1 797	1 843	1 847
In other currencies	388	415	441	438	442	449	489	468
Domestic currencies, on nonresidents	**348**	**369**	**404**	**410**	**401**	**405**	**409**	**416**
On nonbanks	142	153	263	229	178	171	187	192
On banks	206	216	141	181	223	234	222	224
In dollars	177	193	219	225	218	224	216	228
In other currencies	171	176	185	185	183	181	193	188
Total	**1 890**	**2 273**	**2 528**	**2 524**	**2 580**	**2 651**	**2 741**	**2 731**
On nonbanks	567	726	964	874	832	837	873	864
On banks	1 323	1 547	1 565	1 650	1 748	1 814	1 868	1 867
In dollars	1 331	1 682	1 902	1 901	1 955	2 021	2 059	2 075
In other currencies	559	580	626	623	625	630	682	656
Gross liabilities								
Eurocurrencies, to residents and nonresidents	**1 554**	**1 927**	**2 146**	**2 148**	**2 202**	**2 275**	**2 359**	**2 355**
To nonbanks	272	384	450	444	442	479	501	500
To official monetary institutions	127	113	91	82	86	88	85	88
To other banks	1 154	1 431	1 605	1 622	1 674	1 708	1 773	1 767
In dollars	1 178	1 520	1 729	1 734	1 724	1 849	1 885	1 907
In other currencies	376	407	417	414	478	426	474	448
Domestic currencies, to nonresidents	**283**	**266**	**254**	**252**	**249**	**263**	**268**	**284**
To nonbanks	85	177	166	96	85	89	92	93
To banks	199	89	88	156	164	174	176	191
In dollars	139	130	121	120	120	138	134	146
In other currencies	144	136	133	132	128	125	134	138
Total	**1 837**	**2 193**	**2 400**	**2 400**	**2 450**	**2 538**	**2 627**	**2 639**
To nonbanks	357	561	616	540	527	568	593	593
To banks and official institutions	1 480	1 633	1 784	1 860	1 924	1 970	2 034	2 046
In dollars	1 317	1 650	1 850	1 854	1 844	1 987	2 019	2 053
In other currencies	520	543	550	546	606	551	608	586
Net market size	**906**	**1 156**	**1 332**	**1 319**	**1 333**	**1 343**	**1 375**	**1 393**

International bond issues and bank credits

millions of dollars

	1982	*1983*	*1984*	*1984*		*1985*	*Jan*	
				Nov	*Dec*	*Jan*	*1985*	*1984*
By country of borrower								
Industrial countries	**108 772**	**102 652**	**177 032**	**13 547**	**11 968**	**18 020**	**18 020**	**17 158**
Australia	7 213	5 737	5 816	248	600	752	752	290
Austria	2 068	1 290	2 254	94	203	274	274	316
Belgium	1 528	2 168	1 847	400	—	400	400	—
Canada	15 856	8 571	13 124	210	4 100	4 414	4 414	1 632
Denmark	2 725	3 941	4 825	64	182	398	398	608
Finland	1 446	1 271	1 713	83	42	238	238	145
France	14 813	8 626	11 298	504	723	899	899	739
Germany	1 101	3 197	2 165	131	167	287	287	281
Greece	808	1 291	1 551	—	204	297	297	—
Ireland	1 136	1 869	1 348	124	36	363	363	35
Italy	6 687	4 876	6 917	1 529	292	1 061	1 061	615
Japan	8 397	14 428	17 526	871	588	2 612	2 612	1 769
Netherlands	1 000	1 213	1 973	231	—	139	139	141
New Zealand	4 786	802	3 208	639	40	311	311	—
Norway	2 601	1 969	1 324	49	73	100	100	100
Portugal	1 684	1 030	1 796	—	70	20	20	—
South Africa	1 88[illegible]	1 300	1 422	119	21	179	179	31
Spain	2 675	4 977	4 931	205	174	209	209	426
Sweden	3 181	7 144	11 256	741	59	649	649	176
United Kingdom	2 836	2 726	8 899	514	616	492	492	310
United States	21 109	20 276	65 054	5 599	3 607	3 835	3 835	9 508
*Other**	3 233	3 950	6 785	1 192	171	92	92	36
Developing countries	**49 023**	**38 256**	**39 672**	**2 902**	**6 163**	**1 783**	**1 783**	**9 409**
Latin American countries	**29 667**	**15 592**	**17 464**	—	**4 450**	**196**	**196**	**6 530**
Argentina	1 565	1 750	4 212	—	4 200	—	—	—
Brazil	5 972	4 475	6 649	—	—	—	—	6 500
Chile	1 194	1 405	784	—	—	—	—	—
Colombia	776	552	589	—	—	—	—	—
Mexico	9 968	5 138	3 918	—	—	—	—	—
Venezuela	7 241	237	—	—	—	—	—	—
*Other***	2 951	2 035	1 312	—	250	196	196	30
Asian countries	**11 723**	**12 978**	**15 840**	**2 017**	**1 073**	**587**	**587**	**1 686**
India	555	968	945	75	40	150	150	50
Indonesia	1 822	2 363	1 924	27	—	—	—	750
Korea	3 277	4 387	6 201	697	151	227	227	202
Malaysia	2 872	2 197	2 605	—	862	—	—	406
Philippines	888	878	925	925	—	—	—	—
Thailand	414	747	1 221	—	—	—	—	21
Other	1 895	1 438	2 019	293	20	210	210	257
Middle Eastern and African countries	**7 633**	**9 686**	**6 368**	**885**	**640**	**1 000**	**1 000**	**1 193**
Algeria	86	1 993	821	600	—	600	600	—
Nigeria	2 069	2 343	985	—	—	—	—	985
Turkey	277	1 106	741	—	—	—	—	—
Other	5 201	4 244	3 821	285	640	400	400	208
Eastern European countries	**1 479**	**1 294**	**3 244**	**433**	**80**	**536**	**536**	**250**
Hungary	340	741	1 386	—	80	230	230	—
Soviet Union	1 131	93	1 051	—	—	206	206	250
*Other****	8	460	807	433	—	100	100	—
International organizations****	**11 353**	**16 201**	**13 287**	**1 493**	**1 392**	**1 757**	**1 757**	**944**
By type of instrument and currency								
International bond issues	**78 042**	**76 329**	**107 411**	**10 944**	**7 439**	**13 305**	**13 305**	**8 747**
Eurobonds	51 645	48 501	79 458	8 328	5 740	10 944	10 944	6 679
U.S. dollar	43 959	38 428	63 593	5 643	4 654	7 887	7 887	5 771
German mark	2 588	3 817	4 604	545	210	1 075	1 075	302
British pound	748	1 947	3 997	670	238	199	199	281
Japanese yen	374	212	1 212	490	313	545	545	—
European composite units	1 980	2 019	3 032	516	197	457	457	125
Other	1 996	2 078	3 020	464	128	781	781	200
Foreign bonds	26 397	27 828	27 953	2 616	1 699	2 361	2 361	2 068
U.S. dollar	5 946	4 545	5 487	200	600	500	500	200
German mark	2 952	2 671	2 243	268	354	158	158	161
British pound	1 214	811	1 292	31	—	—	—	91
Swiss franc	11 432	14 299	12 626	989	379	991	991	1 236
Japanese yen	3 418	3 772	4 628	945	225	502	502	278
Other	1 435	1 730	1 677	183	141	210	210	102
International bank credits	**92 585**	**82 074**	**125 824**	**7 431**	**12 164**	**8 790**	**8 790**	**19 014**
Eurocurrency credits	85 015	74 222	112 536	6 937	11 558	8 425	8 425	17 816
Foreign credits	7 570	7 852	13 288	494	606	365	365	1 198
Total	**170 627**	**158 403**	**233 235**	**18 375**	**19 603**	**22 095**	**22 095**	**27 761**

*Includes multinational organizations. **Includes unallocated. ***Includes COMECON institutions. ****Includes regional development organizations.

Eurocurrency deposit rates

prime banks' bid rates, at or near end of month

	1981	1982	1983	1984						1985
	Dec	Dec	Dec	Jul	Aug	Sep	Oct	Nov	Dec	Jan
Eurodollar										
overnight	12.87	9.25	9.50	11.75	11.50	11.63	9.81	8.69	8.63	8.50
one month	13.31	9.13	9.69	11.50	11.69	11.00	9.75	8.81	8.38	8.31
three months	13.75	9.19	9.81	11.81	11.88	11.38	10.00	9.06	8.63	8.44
six months	14.81	9.50	10.06	12.25	12.13	11.56	10.25	9.50	9.13	8.69
twelve months	14.75	9.63	10.38	12.75	12.63	11.81	10.81	10.06	9.81	9.31
Euro-Canadian dollar										
one month	15.37	10.00	9.13	12.44	12.13	11.88	11.38	10.88	9.88	9.63
three months	15.37	10.00	9.50	12.75	12.13	12.06	11.38	10.50	10.81	9.63
six months	16.37	10.13	9.75	13.06	12.38	12.00	11.56	10.56	10.06	9.63
twelve months	16.37	10.25	10.00	13.25	12.63	12.06	11.63	10.56	10.44	9.88
Euro-french franc										
one month	15.75	23.00	12.13	11.38	10.88	10.94	10.38	10.69	10.69	10.31
three months	17.00	24.00	12.19	11.75	11.88	11.25	10.69	10.88	10.69	10.56
six months	18.00	22.00	12.31	12.69	11.19	11.69	11.31	11.19	11.00	11.00
twelve months	18.25	19.75	12.63	13.63	12.69	12.13	11.75	11.63	11.38	11.63
Euromark										
one month	10.44	5.88	5.25	5.25	5.31	5.44	5.56	5.56	5.50	5.75
three months	10.50	5.88	5.88	5.75	5.50	5.75	5.81	5.56	5.50	6.00
six months	10.56	5.94	6.13	6.13	5.88	5.94	5.81	5.63	5.56	6.06
twelve months	10.25	6.00	6.38	6.56	6.19	6.00	5.88	5.69	5.56	6.13
Euro-Dutch guilder										
one month	10.75	5.13	5.81	6.13	6.06	6.00	5.81	5.63	5.69	6.00
three months	10.75	5.19	6.00	6.38	6.25	6.25	6.00	5.81	5.75	6.13
six months	10.75	5.38	6.25	6.69	6.56	6.38	6.13	5.88	5.81	6.19
twelve months	10.75	5.63	6.38	6.88	6.81	6.50	6.25	6.00	5.94	6.31
Euro-Swiss franc										
one month	8.87	2.81	3.38	4.81	4.50	4.69	4.63	5.13	4.44	5.38
three months	9.25	3.25	3.75	4.88	4.69	5.13	5.06	4.94	4.56	5.38
six months	9.25	3.44	3.94	5.06	4.81	5.19	5.06	4.94	4.63	5.31
twelve months	8.50	3.44	3.94	5.06	5.00	5.06	5.00	4.94	4.69	5.19
Eurosterling										
one month	15.37	10.56	9.13	12.25	10.75	10.69	10.63	9.69	9.50	13.13
three months	15.69	10.44	9.31	12.25	10.69	10.69	10.50	9.69	9.88	12.50
six months	15.69	10.31	9.50	12.19	10.63	10.69	10.44	9.81	10.00	11.94
twelve months	15.37	10.31	9.81	12.13	10.75	10.75	10.56	10.00	10.19	11.88
Euroyen										
one month	6.12	6.75	6.25	6.13	6.38	6.13	6.13	6.50	6.19	6.19
three months	6.12	6.75	6.31	6.31	6.31	6.31	6.31	6.31	6.19	6.31
six months	6.87	7.10	6.38	6.31	6.31	6.31	6.31	6.31	6.13	6.25
twelve months	6.87	6.81	6.44	6.50	6.50	6.44	6.31	6.31	6.13	6.25
European currency unit										
one month	14.63	12.44	8.81	9.31	9.06	9.63	9.50	9.19	9.25	9.94
three months	14.75	12.31	9.19	9.63	9.31	9.81	9.69	9.31	9.38	9.94
six months	15.00	12.00	9.44	10.06	9.94	10.06	9.81	9.38	9.50	9.94
twelve months	14.56	11.19	9.63	10.31	10.25	10.25	10.00	9.69	9.63	9.94

International bond yields

average yield of several actively traded, high quality issues with a maturity of 7 to 12 years at or near end of month

	1982	1983	1984							1985
	Dec	Dec	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
United States companies										
Eurodollar	11.16	11.59	13.27	12.70	11.97	12.09	11.85	11.17	11.25	11.05
Euromark	7.24	7.34	7.48	7.74	7.40	7.30	7.19	7.08	6.95	7.19
Swiss franc	5.70	5.83	5.78	5.76	5.69	5.72	5.78	5.70	5.73	5.85
European governments										
Eurodollar	12.53	12.65	14.14	13.61	13.03	12.92	12.49	12.00	12.04	11.72
Euromark	8.10	8.12	8.07	8.31	7.94	7.78	7.61	7.43	7.39	7.54
Swiss franc	5.40	5.63	5.59	5.47	5.38	5.39	5.40	5.43	5.24	5.17
European currency unit	n.a.	11.77	11.63	11.60	11.58	11.43	11.00	10.79	10.64	10.62

Central bank discount rates

at or near end of month

	1981	1982	1983	1984				1985	Current	
	Dec	Dec	Dec	Sep	Oct	Nov	Dec	Jan	Feb 19 1985	effective since
United States	12.00	8.50	8.50	9.00	9.00	8.50	8.00	8.00	8.00	Dec 24, 84
Canada	14.66	10.05	9.96	12.28	11.71	10.75	10.16	9.75	10.48	Feb 14, 85
Austria	6.75	4.75	3.75	4.50	4.50	4.50	4.50	4.50	4.50	Jun 28, 84
Belgium	15.00	11.50	10.00	11.00	11.00	11.00	11.00	11.00	11.00	Feb 16, 84
Denmark	11.00	10.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	Oct 27, 83
Finland	9.30	8.50	9.50	9.50	9.50	9.50	9.50	9.50	9.00	Feb 1, 85
France	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9 50	Aug 31, 77
Germany	7.50	5.00	4.00	4.50	4.50	4.50	4.50	4.50	4.50	Jun 29, 84
Ireland	17.15	14.35	11.50	13.00	13.00	14.00	13.75	13.75	14.00	Dec, 84
Italy	19 00	18.00	17.00	16.50	16.50	16.50	16.50	15 50	15.50	Jan 4, 85
Netherlands	9.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.50	Feb 1, 85
Norway	9.00	9 00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	Jun 6, 83
Portugal	18.00	19.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00	Aug 10, 83
Spain	8.00	8.00	8.00	8 00	8.00	8.00	8.00	8.00	8.00	Jul 26, 77
Sweden	11.00	10.00	8.50	9.50	9.50	9.50	9 50	9.50	9.50	Jun 29, 84
Switzerland	6.00	4.50	4.00	4.00	4.00	4.00	4.00	4.00	4.00	Mar 18, 83
United Kingdom	14.37	10.00	9.00	10.38	10.38	9.38	9.38	13.75	13.75	Jan 28, 85
Japan	5.50	5.50	5.00	5.00	5.00	5.00	5.00	5.00	5.00	Oct 22, 83
New Zealand	13 00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	Jul, 81
South Africa	13.50	15.45	18.50	22.25	22.25	21.25	21.25	21.85	22.33	Feb 1, 85
Argentina	98.50	128.54	183.75	199.94	221.31	221.31	221.31	231.89	231.89	Jan 16, 85
Korea	10.50	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	Mar 29, 82
Philippines	6.69	6.30	8.05	11.36	10.93	11.06	12.11	n.a.	12.11	Dec, 84
Singapore	9.50	7 00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	Feb 19, 82
Thailand	14.50	12.50	13.00	13.00	13.00	12.00	12.00	12.00	12.00	Nov, 84
Venezuela	14.00	13.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	May 18, 83

Day-to-day money rates

monthly averages

	1981	1982	1983	1984							1985
	Dec	Dec	Dec	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
United States	12.37	8.95	9.47	11.06	11.23	11.64	11.30	9.99	9.43	8.38	8.35
Canada	14.53	10.63	8.78	10.75	11.41	12.25	12.13	11.95	11.22	10.50	9.75
Austria	7.50	6.00	5.75	6.50	6.50	6.63	6.63	6.75	7.25	7.63	6.75
Belgium	12.78	9.43	8.65	9.80	10.22	10.72	8.79	9.57	10.24	9.02	9.60
Finland	11.30	11.50	16.70	16.80	16.53	16.50	16.10	15.75	15.48	15.07	14.57
France	15.46	12.88	12.27	12.12	11.45	11.43	11.36	11.04	11.18	10 95	10.56
Germany	10.65	6.07	5.60	5.53	5.57	5.53	5.56	5.61	5.52	5.55	5.54
Ireland	16.88	14.54	12.19	10.94	12.00	11.88	12.38	13.50	14.25	14.50	14.88
Italy	20.63	19.00	17.88	16.75	16.75	16.63	17.34	17.38	17.25	17.25	16.06
Netherlands	10.67	5.31	5.84	5.85	5.98	5.85	5.84	5.90	5.57	5.60	5.78
Norway	18.60	11.00	13.00	12.50	12.00	12.50	13.00	13.00	13.00	13.00	12.50
Spain	18.73	20.30	16.41	11.91	11.15	12.69	12.51	10.83	12.99	12.18	11.43
Sweden	13.82	8.63	11.48	13.50	12.95	13.50	13.50	12.50	10.95	12.15	10.49
Switzerland	3.38	1.25	1.88	2.13	2.88	2.00	2.50	2.00	1.50	1.50	2.63
United Kingdom	9.13	6.70	7.78	5.00	8.63	10.58	7.28	7.38	7.55	6.31	7.38
Australia	12 84	11.04	4.56	11.44	11.34	10.94	10.56	10.61	10.92	10.88	10.89
Japan	6.70	6.92	6.44	5.91	6.03	6.11	6.32	6.15	6.10	6.41	6.17
South Africa	12.75	14.15	16.06	17.25	18.06	20.30	22.63	21.50	21.50	21.13	22.19
Argentina	84.93	155.32	178.30	161.88	194.56	194.56	194.56	215.99	215.99	215 99	226.61
Brazil	103.74	150.42	184.69	226.75	283.79	242.73	285.03	328.87	244.59	272.02	n.a.
Hong Kong	10.75	9.13	13.90	13.00	23.40	11.30	11.99	8.47	7.23	6.80	6.94
Korea	14.40	13.84	11.40	11.90	11.70	11.70	11.20	11.30	10.90	10.00	8.90
Philippines	14.70	16.12	31.18	40.41	39.79	29.13	34.29	40.09	32.17	15.22	n.a.
Singapore	3.96	11.45	7.05	6.80	7.67	8.05	8.16	7.54	6.29	6.01	5.40

Treasury bill rates

bond equivalent yields, at or near end of month

	1981	1982	1983	1984							1985
	Dec	Dec	Dec	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
United States	11.90	8.15	9.28	10.29	10.67	11.06	10.64	9.69	8.71	7.99	7.88
Canada	14.41	9.80	9.71	12.11	12.73	12.13	12.02	11.46	10.50	9.84	9.50
Belgium	16.00	12.25	10.85	11.75	11.75	11.50	11.00	11.00	10.75	10.75	10.70
Ireland	17.35	14.70	11.63	12.08	13.23	12.81	12.71	12.90	14.80	15.10	14.07
Italy	21 36	19.11	16.95	14.85	14.99	14.99	15 40	15.30	14.90	14.69	13.75
Netherlands	9.75	5.63	5.63	5.88	5.75	5.75	5.50	5.63	5.63	5.88	6.31
Spain	n.a.	15.28	14.46	11.17	10.30	9.44	8.91	n.a.	n.a.	n.a.	n.a.
Sweden	n.a.	12.90	11.75	14.20	14.12	14.06	13.80	11.83	12.04	11.83	13.53
United Kingdom	15.31	9.90	9.08	9.08	11.77	10.22	10.39	10.06	9.34	9.37	12.50
Australia	13.27	9.39	8.54	11.24	10.60	9.74	9.60	10.75	10.98	12.27	12.22
Japan	5.42	5.42	4.91	4.91	4.91	4.91	4.91	4.91	4.91	4.91	4.91
New Zealand	11.25	11.25	7.80	7.80	7.80	7.80	7.80	13.50	13.50	13.50	17.50
South Africa	14.55	14.62	18.43	18.44	19.69	23.02	23.02	23.03	21.82	21.94	23.05
Brazil	92.62	115.40	179.15	179.15	179.15	179.15	269.00	273.03	273.03	273.03	n.a.
Mexico	33.23	57.44	53.78	50.55	50.31	50.13	48.36	47.88	47.10	47.71	n.a.
Philippines	13.22	14.54	15.99	28.53	33.34	37.51	42.56	46.30	48.67	47.14	n.a.
Singapore	3.03	2.74	2.59	3.01	3.00	3.01	3.01	3.01	2.85	2.82	2.93

Representative money market rates

bond-equivalent yields on major short-term (mostly 3-4 month) money market instruments other than Treasury bills, at or near end of month

	1981	1982	1983	1984							1985
	Dec	Dec	Dec	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
United States	12.78	8.81	9.75	11.63	11.36	11.58	10.94	9.59	8.84	8.22	8.06
Canada	15.25	9.95	9.87	12.50	13.05	12.30	12.25	11.80	10.80	10.10	9.65
Belgium	16.00	12.35	11.00	11.90	11.90	11.50	11.00	11.00	10.75	10.70	10.75
France	15.25	12.75	12.19	12.06	11.63	11.18	10.94	10.18	10.56	10 69	10.31
Germany	10.50	6.20	6.30	6.10	6.05	5.90	6.05	6.05	5.80	5.75	6.00
Ireland	16.50	15.75	12.19	12.50	13.75	13.25	13.06	13.75	15.38	15.13	14.63
Italy	21.00	19.00	17.88	16.63	16.63	16.63	17.25	17.25	17.25	17.25	16.00
Netherlands	11.00	5.25	6.00	6.19	6.44	6.38	6.19	6.06	5.94	5.75	6.50
Portugal	13.80	15.05	24.11	24.13	24.65	24.53	24.60	24.52	24.51	24.57	24.57
Spain	15.52	16.55	18.48	13.45	12.91	13.19	12.86	12.54	12.95	12.13	12.27
Switzerland	10.12	3.88	3.88	4.50	4.88	5.38	5.38	5.25	5.00	5.00	5.63
United Kingdom	15.69	10.50	9.31	9.44	12.31	10.69	10.69	10.88	9.69	9.88	12.50
Australia	16.00	10.65	9.50	12.70	12.50	11.10	11.30	11.30	11.75	12.50	13.55
Japan	6.30	6.80	6.42	6.32	6.33	6.32	6.32	6.30	6.30	6.29	6.30
New Zealand	16.05	16.75	12.10	17.00	16.50	15.25	16.75	16.25	15.25	15.25	18.75
South Africa	15.47	15.26	19.12	18.74	20.78	23.39	23.56	23.56	22.11	22.78	24.07
Chile	34.54	71.44	22.42	18.16	19.56	18.16	39.29	52.87	56.45	22.42	22.42
Hong Kong	14.18	10.13	12.84	13.13	17.06	12.83	12.78	10.13	8.76	8.26	7.85
Indonesia	14.48	18.50	19.50	20.00	21.00	21.00	21.00	20.00	19.00	19.00	19.00
Korea	15.69	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
Malaysia	9.50	8.50	9.80	9.70	10.20	10.50	10.30	15.00	10.00	10.30	9.50
Philippines	17.70	15.96	15.61	17.93	19.55	27.32	19.54	31.23	38.67	33.21	n.a.
Singapore	7.81	8.69	8.44	9.00	9.06	9.03	8.81	7.38	6.69	7.00	6.03
Taiwan	10.94	9.94	7.65	7.77	7.27	6.62	7.27	5.17	6.17	8.07	6.78
Thailand	14.29	12.25	16.00	13.50	13.50	13.50	14.50	14.00	12.00	12.00	14.00

Commercial bank deposit rates

at or near end of month

	1981	*1982*	*1983*	*1984*							*1985*
	Dec	*Dec*	*Dec*	*Jun*	*Jul*	*Aug*	*Sep*	*Oct*	*Nov*	*Dec*	*Jan*
United States	12.62	8.25	9.70	11.70	11.38	11.58	10.95	9.95	8.85	8.35	8.06
Canada	15.20	9.85	9.82	12.45	13.00	12.25	12.20	11.75	10.75	10.05	9.60
Austria	9.63	6.25	6.50	6.88	6.88	6.94	7.06	7.38	7.63	7.50	6.94
Belgium	15.50	12.25	11.25	12.50	11.63	11.25	10.88	10.75	10.63	10.63	10.75
Denmark	10.00	9.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Finland	5.00	4.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25
France	9.16	8.24	7.66	7.55	7.50	7.30	7.30	7.08	7.14	7.04	6.85
Germany	9.50	6.00	5.90	5.60	5.55	5.40	5.30	5.40	5.30	5.25	n.a.
Ireland	16.38	15.25	11.75	12.25	13.13	12.75	12.75	13.25	14.75	14.63	14.25
Italy	13.25	13.25	13.25	11.64	11.64	11.64	11.64	11.64	11.64	11.64	11.00
Netherlands	11.00	5.38	6.13	6.13	6.31	6.13	6.13	6.00	5.81	5.69	6.38
Norway	12.75	13.50	12.75	12.50	12.25	12.25	12.75	12.75	12.75	12.75	12.25
Portugal	14.00	15.00	21.50	28.00	28.00	28.00	28.00	28.00	28.00	27.00	27.00
Spain	11.78	12.53	12.62	12.75	12.50	12.38	12.18	11.76	11.67	11.64	n.a.
Sweden	12.65	12.15	11.70	13.65	13.70	13.55	13.45	11.50	11.50	11.45	13.10
Switzerland	8.75	3.00	3.50	3.25	4.25	4.88	4.88	4.75	4.63	4.50	5.00
United Kingdom	15.69	10.31	9.31	9.44	12.25	10.59	10.63	10.44	9.75	9.88	13.13
Australia	15.65	10.20	10.40	12.80	12.28	10.85	10.68	11.22	11.46	12.75	13.78
Japan	6.50	7.00	6.50	6.45	6.47	6.46	6.42	6.42	6.43	6.38	6.42
New Zealand	15.50	16.50	11.50	15.00	15.00	15.50	15.25	15.00	15.50	15.25	17.00
South Africa	14.75	15.25	20.13	18.65	20.50	23.25	23.50	23.58	22.00	22.88	24.13
Argentina	86.76	103.42	176.41	158.17	188.58	188.58	270.00	320.00	285.00	380.00	285.00
Brazil	110.05	21.00	23.00	22.00	20.00	21.00	27.00	26.00	26.50	27.00	n.a.
Chile	36.87	57.72	22.28	18.16	19.56	18.16	15.39	58.81	66.31	22.42	21.84
Hong Kong	12.50	7.50	9.00	12.50	12.50	9.50	9.50	8.00	7.50	7.00	5.50
Korea	14.40	7.60	7.60	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Malaysia	10.00	8.40	7.75	8.83	8.88	8.95	9.37	10.08	10.02	9.58	9.50
Mexico	31.82	52.54	54.70	49.00	49.00	48.35	46.45	44.90	44.90	44.90	n.a.
Philippines	13.35	14.10	14.96	20.83	19.92	20.63	23.36	29.37	32.47	31.01	n.a.
Singapore	7.50	8.25	7.44	8.19	8.19	8.19	8.19	7.01	6.19	6.13	5.44
Taiwan	10.75	7.50	7.00	6.75	6.75	6.75	6.75	6.75	6.50	6.50	6.50
Thailand	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Venezuela	14.75	15.50	12.00	12.00	12.50	12.50	12.00	13.00	13.00	12.50	12.00

Domestic government bond yields

long-term issues, at or near end of month

	1981	*1982*	*1983*	*1984*							*1985*
	Dec	*Dec*	*Dec*	*Jun*	*Jul*	*Aug*	*Sep*	*Oct*	*Nov*	*Dec*	*Jan*
United States	14.33	10.61	12.00	13.75	12.97	12.69	12.32	11.86	11.64	11.61	11.28
Canada	15.27	11.69	12.02	13.81	13.41	12.89	12.63	12.18	11.81	11.66	11.38
Austria	10.37	8.81	8.02	8.06	8.09	8.10	8.09	8.10	8.07	8.04	8.00
Belgium	13.99	12.66	11.89	12.13	12.05	11.82	11.85	11.74	11.47	11.56	11.56
Denmark	20.91	20.14	12.96	15.54	15.33	15.17	15.30	14.63	14.92	14.60	13.66
Finland	10.98	10.64	11.16	11.29	11.35	10.83	10.87	10.85	10.84	10.73	10.84
France	16.44	15.40	13.96	13.99	13.91	13.58	13.05	12.02	12.36	12.70	12.12
Germany	9.71	7.90	8.38	8.25	8.27	7.97	7.83	7.53	7.20	7.17	7.35
Ireland	18.28	14.54	14.25	14.58	14.89	14.95	14.98	14.99	15.25	14.90	n.a.
Italy	21.39	19.70	17.69	15.47	15.12	15.22	15.58	15.32	15.23	n.a.	n.a.
Netherlands	11.28	8.16	8.58	8.68	8.69	8.50	8.26	7.94	7.65	7.72	7.42
Norway	12.37	13.32	12.50	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.50
Portugal	17.39	16.63	22.11	21.90	21.19	20.69	21.05	20.84	21.21	22.23	n.a.
Spain	16.20	15.92	18.71	18.18	17.66	17.14	16.66	15.86	n.a.	n.a.	n.a.
Sweden	12.80	13.01	12.30	14.01	14.19	13.70	12.98	12.34	12.16	12.04	12.39
Switzerland	5.40	4.22	4.54	4.69	4.66	4.58	4.81	4.89	4.77	4.78	4.74
United Kingdom	15.02	10.62	9.94	10.81	11.17	10.43	10.18	10.19	9.96	10.25	10.65
Australia	15.00	13.00	13.65	14.00	13.30	13.10	13.50	13.30	13.30	13.40	13.12
Japan	8.11	7.96	7.45	7.50	7.47	7.45	7.37	7.11	6.61	6.36	n.a.
New Zealand	12.55	12.84	10.50	10.06	10.25	15.03	15.31	16.65	16.60	16.60	16.85
South Africa	13.33	11.31	13.64	14.72	15.43	16.04	16.44	16.80	15.90	16.55	17.25
Philippines	13.01	13.64	14.47	19.04	12.19	20.59	38.67	27.31	34.77	18.54	n.a.
Venezuela	12.50	15.00	13.50	14.00	14.00	14.50	14.00	14.50	14.50	14.00	13.00

Commercial bank lending rates to prime borrowers

at or near end of month

	1981	1982	1983	1984							1985
	Dec	Dec	Dec	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
United States	15.75	11.50	11.00	13.00	13.00	13.00	12.75	12.00	11.25	10.75	10.50
Canada	16.50	12.50	11.00	12.50	13.50	13.00	13.00	12.50	12.00	11.25	11.00
Austria	13.50	11.75	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25
Belgium	18.00	15.50	13.75	14.75	14.75	14.25	14.25	14.00	14.00	14.00	14.00
Denmark	15.00	14.00	10.00	10.00	10.00	10.00	10.00	10.00	10.50	10.50	10.50
Finland	9.84	8.95	10.18	10.48	10.48	10.49	10.54	10.52	10.60	10.63	10.67
France	14.00	12.25	12.25	12.25	12.25	12.00	12.00	12.00	12.00	11.50	11.50
Germany	13.00	8.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75
Ireland	17.25	16.50	13.75	13.75	13.75	13.75	13.75	13.75	13.75	15.75	15.75
Italy	22.50	20.75	18.75	17.00	17.00	17.00	18.00	18.00	18.00	13.00	17.00
Netherlands	12.00	6.25	7.00	6.50	6.75	6.75	6.50	6.50	6.50	6.25	6.75
Norway	13.75	14.50	13.50	13.00	12.75	12.50	13.00	13.25	13.00	13.00	11.50
Portugal	20.50	23.50	30.00	29.00	29.00	29.00	29.00	29.00	29.00	29.00	29.00
Spain	17.04	19.00	20.85	16.19	15.49	15.27	14.36	14.11	14.29	13.68	13.73
Sweden	15.00	15.00	13.50	14.50	14.50	14.50	14.50	14.50	14.50	14.50	14.50
Switzerland	8.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
United Kingdom	14.50	10.00	9.00	9.25	12.00	10.50	10.50	10.50	9.50	9.50	14.00
Australia	15.75	15.00	12.75	14.75	14.50	14.00	13.00	13.00	13.00	13.50	14.25
Japan	6.95	6.28	5.89	5.73	5.72	5.72	5.72	5.71	5.71	5.71	n.a.
New Zealand	13.00	13.00	11.00	11.00	11.00	12.50	12.50	13.50	14.00	14.00	14.00
South Africa	17.00	18.00	20.00	20.50	22.00	25.00	25.00	25.00	23.50	24.00	25.00
Argentina	92.60	109.50	188.58	170.33	206.83	206.83	280.00	330.00	295.00	390.00	295.00
Brazil	152.40	23.81	24.00	26.00	22.50	23.50	32.00	30.00	30.50	31.00	n.a.
Chile	61.43	85.19	35.11	32.30	32.30	30.38	35.58	78.75	95.33	79.56	58.04
Hong Kong	16.00	10.50	13.50	17.00	17.00	14.00	14.00	12.00	11.50	11.00	11.00
Indonesia	19.25	22.00	19.75	20.75	21.25	22.75	31.50	26.00	23.50	23.50	22.50
Korea	16.50	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Malaysia	12.00	12.50	11.00	11.50	11.50	11.50	11.50	12.00	12.00	12.00	12.00
Mexico	31.81	46.12	56.44	50.38	50.69	50.93	50.60	49.34	48.31	47.54	47.17
Philippines	18.00	18.00	18.00	24.00	24.00	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Singapore	11.83	9.33	8.98	10.08	10.10	10.10	10.33	10.33	9.88	9.40	9.08
Taiwan	15.25	10.75	10.25	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Thailand	17.00	16.00	16.00	17.00	17.00	17.00	17.00	17.00	16.50	16.50	16.50
Venezuela	15.50	17.00	16.00	15.00	15.50	16.00	15.00	15.00	16.00	16.00	15.00

Domestic corporate bond yields

long-term issues, at or near end of month

	1981	1982	1983	1984							1985
	Dec	Dec	Dec	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
United States	15.50	11.75	12.63	14.50	13.38	13.20	12.88	12.63	12.37	12.25	12.00
Canada	16.18	12.74	12.89	14.69	13.91	13.39	13.33	12.90	12.62	12.42	n.a.
France	17.33	15.91	14.06	13.77	13.77	13.77	13.77	12.84	12.58	12.14	12.40
Germany	10.50	8.20	8.30	8.00	8.00	7.90	7.70	7.60	7.30	7.20	7.20
Netherlands	11.03	7.80	8.51	8.43	8.49	8.42	8.21	7.77	7.61	7.51	7.33
Norway	13.36	14.13	13.25	12.75	12.75	12.75	12.75	12.75	12.75	12.75	12.75
Spain	14.76	17.10	19.84	21.63	21.47	21.78	n.a.	n.a.	n.a.	n.a.	n.a.
Sweden	12.94	13.37	12.21	12.41	12.73	12.78	13.18	13.19	13.21	12.33	12.34
Switzerland	n.a.	4.87	4.94	5.07	5.10	5.16	5.12	5.14	5.18	5.20	5.16
United Kingdom	16.55	12.34	11.57	12.69	13.06	12.15	11.74	11.79	11.45	11.64	12.06
Australia	16.50	15.00	13.50	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Japan	7.70	7.55	7.09	7.13	7.09	7.06	6.98	6.99	6.51	6.21	n.a.
Korea	26.90	16.00	14.20	13.70	14.00	14.50	14.60	14.60	14.90	15.00	14.70
Venezuela	17.00	18.00	18.00	18.00	18.00	18.50	18.00	19.00	18.00	18.00	18.00

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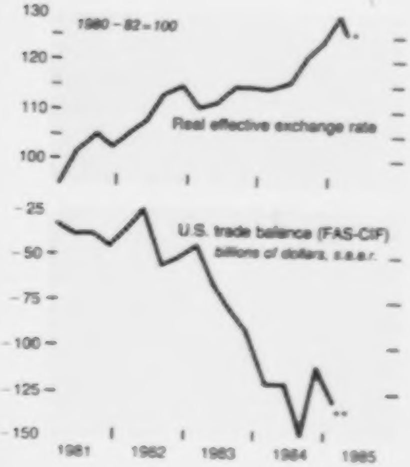
Chart 1

The dollar and the U.S. trade balance



* April 3

** January February.

The Bonn summit and the U.S. trade deficit

The U.S. trade deficit — $123 billion last year and seemingly headed higher (see Chart 1) — is one of many profound imbalances that have afflicted the world economy over the past decade. Following the second oil shock, and in surprisingly short order, global retrenchment quelled double-digit inflation in the major industrial countries, eradicated an OPEC surplus that had exceeded $100 billion in 1980, and forced abrupt financial adjustment on overextended developing countries. Against that background, the Reagan Administration's economic recovery program and fiscal stimulus led to ebullient domestic expansion, sending the dollar and the U.S. trade deficit soaring — the more so as domestic growth still lagged in Europe and elsewhere (see Chart 2).

The trade deficit has had a number of positive features. It has lessened domestic capacity constraints on continued economic expansion. It has acted as a powerful restraint on U.S. wage and price inflation. And it has kept U.S. interest rates lower than they otherwise would have been, given credit demands in both private and public sectors. It also has provided a vital boost for the rest of the world, which has come to depend on export sales to the United States. However, a large and growing U.S. trade deficit is neither desirable nor tenable indefinitely. Long-term problems would emerge: financially, as the United States becomes the foremost international debtor; economically, as U.S. domestic demand leaks abroad and employment gains falter; and politically, as threatened domestic industries and their workers clamor for protection.

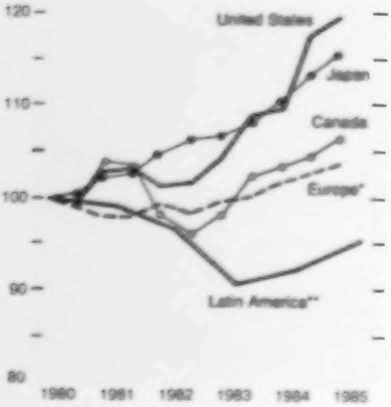
Accordingly, policy changes are needed. Most recommendations stress *unilateral* U.S. measures. Protectionism, whatever its popular appeal, would be of questionable efficacy for narrowing the overall trade deficit. Other unilateral approaches would work by driving down the dollar or by depressing U.S. domestic demand. But the depreciation route would require a major further fall in the dollar, would be very damaging in terms of inflation and, most likely, would lead to a new recession. Recession would be still more the danger were domestic demand to be deliberately depressed. Any resulting fall in interest rates might not spur foreign economic activity and U.S. exports by enough to outweigh the domestic contraction.

What is needed is a *multilateral* approach recognizing that the U.S. trade deficit reflects foreign eco-

Chart 2

Domestic demand

Real terms, 1980 1st half = 100



* Germany, France, United Kingdom, Italy.
** Argentina, Brazil, Mexico.

nomic failings as well as the U.S. budget imbalance. Gradual but cumulatively major policy changes in each of the summit countries should have two principal goals: stepped-up economic growth that puts idle resources back to work worldwide; and the breakdown of trade and regulatory barriers that stifle efficiency. If the summit leaders keep these goals to the fore at their May meeting in Bonn, they can point the way forward to constructive solution of the U.S. trade problem.

The problem

The widening trade deficit raises question marks for U.S. economic competitiveness and performance. The dimensions and sources of the deterioration are a function of developments in the world at large, as well as in the United States. Scenario A in Table 1 sets out the key features of a probable path for the deficit on the assumptions that the dollar holds around its present level for the next few years and that macroeconomic policies are unchanged both in the United States and elsewhere. The U.S. trade deficit would creep steadily upward, from this year's projected $155 billion on the CIF valuation to perhaps $180 billion in 1989. The current account deficit would widen much further, from $145 billion this year to about $250 billion in 1989, largely because interest payments on the U.S. net foreign debt would reach $90 billion by the end of the four-year period.

This prospect poses three major problems. First, there is a *financial* problem — the potential threat to market stability and national independence of action set by U.S. transition from international creditor position — held since World War I — to growing net debtor status today. If Scenario A comes to pass, then on a net basis the United States could speedily amass a trillion dollar debt mountain, towering substantially higher than today's entire third world debt of roughly $730 billion net, or $900 billion gross. Attracting the corresponding net capital inflows could have worldwide interest and exchange rate implications, whether or not the debt mountain itself proves destabilizing.

Second, an *economic* problem arises from the leakage abroad of U.S. domestic demand through the trade deficit. Many see that leakage subtracting from U.S. output and employment. The leakage may, in principle, exceed the increase in domestic demand, such that U.S. producers collectively get no benefit. That was nearly the case in 1984's third quarter when over two-thirds of the rise in domestic demand leaked abroad (see Chart 3). For the year as a whole, two percentage points of the 8.7% rise in domestic demand were met through increased net imports. Leakage may now be worsening. Robust retail sales contrast with sagging industrial output and faltering overall employment gains. Moreover, while imports dipped in February, exports declined sharply, widening the trade deficit to $11.4 billion — $2 billion greater than the average of the preceding four months. This mixed overall picture underlay the flash estimate of just 2.1% real GNP growth for the first quarter of 1985 and the leveling out of the jobless rate in the 7%-7½% range since last summer.

Third, U.S. *protectionism* is stirred by the trade deficit. The sight of foreigners deriving handsome benefits from U.S. expansion is galling to domestic industries suffering competitive handicaps. Trade balances have deteriorated drastically in almost every category of the manufacturing sector — not only in industries that have been in long-standing structural difficulty but also in many

Table 1

Medium-term scenarios for the U.S. trade and current accounts

percent change, except as noted

	1984	*1985*	*1986*	*1987*	*1988*	*1989*
Scenario A: unchanged dollar, unchanged policies						
U.S. trade balance CIF ($bil)	—123	—155	—165	—163	—167	—180
Current account ($bil)	—101	—149	—165	—193	—216	—250
Net foreign debt ($bil)	30	—119	—285	—477	—693	—943
U.S. real GNP	6.9	3.6	3.3	2.9	3.2	3.1
Domestic demand	8.7	4.0	3.2	2.9	3.0	3.0
Unemployment rate (%)	7.4	7.0	6.8	6.8	6.7	6.6
Manufactures prices	1.5	2.2	1.7	2.4	2.6	2.7
*Interest rate (%)**	10.0	10.6	9.5	10.6	10.2	10.1
*Dollar exchange rate***	8.0	8.0	0.0	0.0	0.0	0.0
*Foreign real GNP****	3.5	3.3	3.5	3.5	3.0	3.0
Scenario B: dollar devaluation						
U.S. trade balance CIF ($bil)	—123	—146	—125	—74	—32	7
Current account ($bil)	—101	—133	—129	—100	—62	—26
Net foreign debt ($bil)	0	—103	—231	—332	—393	—419
U.S. real GNP	6.9	3.8	3.3	3.4	3.7	3.6
Domestic demand	8.7	3.9	2.7	2.3	2.6	2.6
Unemployment rate (%)	7.4	6.8	6.6	6.3	5.8	5.4
Manufactures prices	1.5	2.8	4.1	6.6	7.2	7.3
*Interest rate (%)**	10.0	11.1	11.0	12.0	10.5	10.1
*Dollar exchange rate***	8.0	4.0	—12.0	—12.0	—10.0	—10.0
*Foreign real GNP****	3.5	3.3	3.5	3.5	3.0	3.0
Scenario C: U.S. recession						
U.S. trade balance CIF ($bil)	—123	—148	—132	—96	—63	—34
Current account ($bil)	—101	—138	—116	—91	—55	—27
Net foreign debt ($bil)	30	—108	—225	—315	—370	—397
U.S. real GNP	6.9	1.8	—2.0	—2.1	—1.2	—0.2
Domestic demand	8.7	2.2	—2.3	—2.4	—1.8	—0.7
Unemployment rate (%)	7.4	8.2	11.7	15.3	18.2	20.5
Manufactures prices	1.5	1.9	0.4	0.3	—0.2	—0.6
*Interest rate (%)**	10.0	9.3	6.8	6.9	5.6	5.7
*Dollar exchange rate***	8.0	8.0	0.0	0.0	0.0	0.0
*Foreign real GNP****	3.5	3.3	3.5	3.5	3.0	3.0
Scenario D: U.S. import surcharge						
U.S. trade balance CIF ($bil)	—123	—156	—70	—49	—46	—62
Current account ($bil)	—101	—142	—70	—50	—48	—67
Net foreign debt ($bil)	30	—112	—182	—233	—281	—349
U.S. real GNP	6.9	3.7	1.7	2.8	3.2	3.1
Domestic demand	8.7	4.0	0.1	2.0	2.7	3.0
Unemployment rate (%)	7.4	6.9	7.8	7.9	7.8	7.7
Manufactures prices	1.5	2.3	8.2	7.3	5.6	3.2
*Interest rate (%)**	10.0	10.6	14.7	9.3	8.7	8.1
*Dollar exchange rate***	8.0	8.0	0.0	0.0	0.0	0.0
*Foreign real GNP****	3.5	3.3	2.5	2.0	2.0	2.5
Scenario E: an international strategy						
U.S. trade balance CIF ($bil)	—123	—146	—123	—81	—41	—24
Current account ($bil)	—101	—133	—119	—91	—50	—25
Net foreign debt ($bil)	30	—103	—222	—313	—362	—390
U.S. real GNP	6.9	3.8	3.0	3.0	3.3	3.1
Domestic demand	8.7	3.9	2.4	2.1	2.3	2.6
Unemployment rate (%)	7.4	6.8	6.8	6.8	6.6	6.5
Manufactures prices	1.5	2.8	3.4	4.9	5.1	4.3
*Interest rate (%)**	10.0	11.1	9.5	9.2	8.1	7.4
*Dollar exchange rate***	8.0	4.0	—7.0	—6.0	—5.0	0.0
*Foreign real GNP****	3.5	3.3	4.5	5.0	5.0	4.5

*Six-month Treasury bill rates.
**Nominal effective.
***Industrial countries except United States.

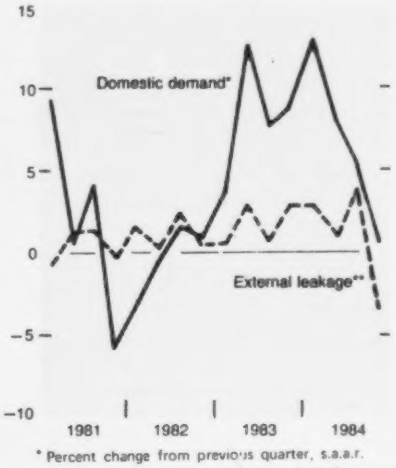
that are said to represent the high-tech future (see Table 2). Deterioration is most conspicuous in the capital goods field, where domestic producers are seen to be losing out in the new industrial revolution. Even for firms that face no trade deficit problem, a high dollar adversely affects foreign affiliates' earnings.

The competitive realities of the 1980s are making unrelenting adjustment demands of U.S. industry, with no sign that pressures will ease in the year ahead. The dollar's tremendous rise is much decried, but is not the only factor at work. For one thing, U.S. retailers are increasingly adept at seeking out low-cost foreign supply sources in order to sell quality imports in the domestic market. For another, U.S. manufacturing companies have little competitive choice but to exploit to the utmost the very large savings in labor costs obtainable by transferring abroad routine stages of mass manufacture. Newly industrializing countries (NICs) in Asia are especially attractive, coupling labor force discipline with increasing capabilities in production technology. Moreover, in their own drive for exports, the NICs are compelled by Japanese and European trade restrictions to target their sales to the vast and easily accessible U.S. market (see Table 3). The dollar's strength probably makes little difference when quantum differences in labor cost are achievable. However, it must be disheartening to those U.S. firms whose main foreign competition is from Japan or Europe, where costs and technology are somewhat more comparable with U.S. conditions.

Protectionist feeling against imports would be more readily held at bay were U.S. export prospects brighter. These are depressed both by the failure of foreign markets to grow sufficiently and by losses of market shares. Over and above the currency factor, U.S. firms face com-

Chart 3

U.S. demand leakage



* Percent change from previous quarter, s.a.a.r.

** Change in net imports as percent of GNP, real terms.

Table 2

U.S. trade by product

billions of dollars, CIF valuations

	Trade balance		U.S. imports,
	1984	change since 1980	% change, 1980-84
Total	—123.3	—91.1	35
Food and raw materials	13.4	—10.9	13
Oil	—53.5	20.5	—24
Manufactures	—88.7	—101.2	76
Chemicals	11.3	—2.3	61
Semimanufactures	—33.2	—22.3	44
Iron and steel	—10.5	—5.5	45
Textiles	—2.2	—3.4	84
Autos, parts, and engines	—29.5	—18.5	83
Civilian aircraft and parts	5.8	—5.3	31
Electronics	—11.0	—14.0	162
Business and data processing	5.9	—1.7	266
Telecommunications	—3.9	—3.6	142
Consumer	—8.2	—5.2	128
Components	—4.8	—3.5	124
Other capital goods	4.4	—19.0	73
Miscellaneous	—36.5	—19.8	81
Clothing	—13.7	—7.9	109
Footwear	—5.3	—2.4	80
Re-exports and other	—5.5	0.5	

Source: U.S. Department of Commerce, Office of Trade and Investment Analysis.

petitive inequities due to their restricted access to foreign markets. Grievances further extend to foreign government production subsidies, dumping, industry targeting, and cartel agreements. Concluding that true "free" trade is a myth, many U.S. industries are now demanding drastic remedies.

Capital flows dominate

Not so long ago it was widely held that the U.S. trade deficit would prove self-correcting: the deficit itself would bring the dollar down to a level eventually conducive to a reasonable balance. That plainly has not happened, since trade forces have been swamped by developments on capital account, inspired in part by the global trend toward liberalization and integration of capital markets. Thus the U.S. financing requirement has not proven unsustainable. Indeed, a widening deficit may be financially sustainable for some time to come.

Almost half last year's increased current account financing was met by a $28 billion decline in net new foreign lending and investing by U.S. residents (see Table 4). Both banks and nonbanks contributed to the reduction, especially U.S. banks. In part, this reflected the cutback of U.S. bank involvement in the international interbank market in response to credit troubles and capital-adequacy pressures to trim balance sheets. Banks in the United States have also been redeploying assets to meet credit demands at home. The required net capital inflow into the United States during 1984 was secured with no overall increases in interest differentials favoring the dollar (see Chart 4).

This year U.S. residents again may choose to draw down foreign assets. Alternatively, portfolio shifts may cause foreign capital inflows to swell. For example, a major counterpart of the U.S. current account deficit is the projected $45 billion Japanese surplus. Already enjoying a large net foreign asset position, equivalent to about $70 billion at end-1984, Japan is liberalizing its external and domestic financial controls with active U.S. encouragement. Liberalization permits financial portfolio diversification by Japanese institutions and residents who added $57 billion in long-term foreign assets last year. Artificially low interest rates and financial repression in Japan's domestic markets help explain both the low proportion of financial assets relative to real estate in Japanese residents' overall portfolios and the high share of foreign assets in financial holdings. In relation to their overall portfolios, Japanese residents still are light in foreign holdings, compared with U.S. residents (see Table 5). While some of Japan's foreign assets are in the form of direct investment, most are held in bonds and bank credits, or as foreign exchange reserves. The bulk of Japanese foreign asset purchases is thought to be dollar-denominated, but they are not necessarily claims on the United States. Nonetheless, Japan is well placed to be a prime source of U.S. capital inflows. Not all of Japan's financial institutions have yet diversified substantially. Moreover, although many insurance companies and pension funds may now be near their presently permitted ceilings for foreign security holdings, those ceilings could well be lifted.

Besides Japan, most European countries are in current account surplus. So also, to a striking extent, are China and Taiwan among developing countries (see Table 6). All are in a position to furnish net capital flows to the United States. It should be remembered too that the large "global discrepancy" on current account — whereby reported deficits exceed surpluses for the

Table 3

Bilateral orientation of U.S. trade

billions of dollars, CIF valuations

	US. bilateral trade balance 1984	US. bilateral trade balance change since 1980	U.S. imports, % change, 1980-84
Total	—123.3	—86.9	33
Industrial countries	—72.9	—72 8	59
Canada	—20.6	—14.0	60
Japan	—37.0	—25.0	84
Western Europe	—17.1	—35.7	53
Australia	1.1	0.0	3
OPEC	—13.7	23.2	—49
*Latin America**	—13.4	—19.3	43
Argentina	—0.1	—1.9	22
Brazil	—5.6	—5.9	107
Mexico	—6.3	—8.6	42
China	—1.2	—3 8	192
Hong Kong	—5.8	—3.5	77
Korea	—4.0	—4.3	126
Malaysia	—1.0	0.4	5
Philippines	—0.9	—1.0	37
Singapore	—0.4	—1.5	108
Taiwan	—11.1	—8.1	118
Thailand	—0.4	—0.8	65

*Excludes Ecuador and Venezuela.

Table 4

U.S. balance of payments

billions of dollars
minus sign indicates an outflow

	1983	1984
Current account balance	—41.6	—101.6
Changes in U.S. holdings of foreign assets	—49.5	—21.2
Official holdings	—6.2	—8.6
Private holdings	—43.3	—12.6
Direct investment	—4.9	—6.0
Claims of U.S. banks	—25.4	—7.3
Changes in foreign holdings of U.S. assets	81.7	92.8
Official holdings	5.3	3.0
Liabilities of U.S. banks	0.4	0.7
Private holdings	76.4	89.8
Direct investment	11.3	21.2
U.S. Treasury securities	8.7	22.5
Other U.S. securities	8.6	13.0
Liabilities of U.S. banks	49.1	27.6
Statistical discrepancy	9.3	30.0

world as a whole — implies not only that the official measure of the U.S. deficit is probably overstated but also that investable surpluses elsewhere are larger than appear. Finally, capital flight from Latin America and elsewhere has not halted.

Should a trillion-dollar net U.S. foreign debt mountain rise up by the end of the decade, it would represent better than twice U.S. goods and services exports but less than 20% of U.S. GNP. The latter ratio is hardly large, compared with other international debtors. The ratio to exports also would be short of those associated with Latin America's debt troubles. However, the U.S. debt mountain would seem to imply an increase in U.S. country risk concentration in foreign portfolios.* On the assumptions of Scenario A, including no rundown in U.S. foreign assets, foreign claims on the United States would rise from 12% of foreign GNP at present to 21% by 1989. That higher figure might conceivably represent saturation of foreign portfolios with U.S. risk. However, it is below the corresponding ratio of gross U.S. holdings of foreign assets to U.S. GNP, recently 23%.

The distinction between *country* risk and *currency* risk is a further complication. Increases in U.S. dollar liabilities that finance the U.S. current account deficit substitute in some degree for dollar liabilities that other countries are no longer issuing by virtue of their current account surpluses. To that extent, the U.S. deficit occasions no net increase in dollar-denominated paper. Moreover, worldwide disinflation is shifting portfolio preferences away from such inflation hedges as precious metals and land toward financial assets, boosting demand for dollar assets. Besides, an ongoing phenomenon — dubbed "dollarization" — wherein global transactions and obligations are increasingly contracted in dollars, raises dollar portfolio demands independently of U.S. current account deficits.

Even if those deficits were to rise, they would remain small compared with the abrupt portfolio adjustments that holders might seek in the event of shifts in their perceptions of risk and return, especially exchange rate expectations. Such shifts could be triggered by all manner of surprise developments in the political, economic, and institutional arenas, but usually not by current account "fundamentals" that are devoid of surprise. This does not mean the dollar cannot fall sharply, for the possibility of a downshift in market expectations cannot be ruled out. But neither can a fresh surge in the dollar be precluded, as again demonstrated earlier this year.

Scenario A implies that the U.S. absorption of foreign savings, about 8% of gross free-world savings outside the United States in 1984, would reach 15% four years hence. Even though that may be manageable, it would be a sad failure of leadership that leaves the United States as the one great outlet for world savings. Much of the world outside the United States now is saving more than it invests at home, the excess being channeled to the United States whose domestic savings fall short of the perceived opportunities for productive and profitable domestic investment. While human and capital resources in Europe, Latin America, and other LDCs stand idle, U.S. investment opportunities are a net plus for all concerned. The long-term objective, however, must be to narrow the U.S. savings-investment gap constructively, build up productive investment opportunities elsewhere, and thus

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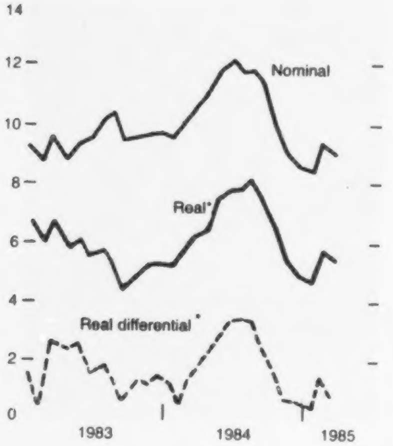
*The relevant measurement of total portfolio size is elusive. In addition to financial assets, which pose an issue of netting, there are the equity and real estate holdings of the nonfinancial sector for which no reliable valuation is available. However, assuming that total wealth has a stable relationship to GNP, the time path of country risk concentration parallels foreign asset/GNP ratios.

Chart 4

U.S. interest rates: nominal and real
percent



* Inflation-adjusted 3-month Eurodollar deposit rate; differential subtracts GNP-weighted average of rates for seven other major Eurocurrencies. The inflation adjustment uses centered 12-month rates of change in consumer prices including projections for 1985 where necessary.

Table 5

Japan's portfolio diversification

billions of dollars, except as noted

	1980	*1982*	*1984**
Current account surplus	—10.7	6.9	35.0
Gross long-term capital outflows	10.8	27.4	56.9
Direct investment	2.4	4.5	6.0
Bonds	4.1	9.5	30.7
Bank loans and trade credits	3.3	11.1	16.9
External assets			
Net	11.5	24.7	70.0
Gross	159.[illegible]	227.7	330.0
as percent of			
GNP	13.7	20.2	28.3
Household financial assets	9.6	12.8	14.0
Household total assets	3.2	4.4	5.5
Memo:			
U.S. gross external assets	606.9	838.1	860.0
as percent of			
GNP	23.1	27.3	23.5
Household financial assets	9.4	11.1	9.9
Household total assets	5.8	6.9	6.2

*Estimated.

promote a better balance in the free flow of international capital.

Deep devaluation or recession: dangerous remedies

Correction of the U.S. trade imbalance is most often believed to require a unilateral overhaul of U.S. fiscal policy, monetary policy, or both. Though not widely recommended, sufficient monetary easing, whether directly or by intervention in the currency markets that is not offset by domestic monetary contraction, could induce a deep devaluation of the dollar. That would help narrow the deficit. Retaining Scenario A assumptions for growth in U.S. and foreign domestic demand, and with U.S. interest rates assumed steady, Scenario B in Table 1 indicates that the dollar would have to slide at least 12% per annum from its present level — cumulatively by almost 50% — to achieve a trade surplus by 1989 and trim the current account deficit to modest dimensions.

The advantage in cutting the deficit by devaluation could be a one-percentage point average step-up in U.S. real GNP growth, accruing from reversal of the present leakage of domestic demand into imports. That would make possible substantial reduction of U.S. unemployment. Unhappily, a radically lower dollar would blunt competitive pressures for productivity improvement in U.S. industry and would be very troublesome for U.S. inflation. While the near-40% real effective appreciation of the dollar between 1980 and late 1984 led to only a 7% decline in U.S. import prices for consumer and capital goods, relative to domestic output, reversal of the appreciation would boost not only the *relative* price of imports but also the general domestic price level. Moreover, it is far from clear that only a one-time 2% or so price level adjustment would occur for every 10% depreciation of the dollar, as a common rule of thumb implies. Most pernicious could be the interaction of depreciation with inflation expectations and the wage-price spiral; witness the crucial moderating role of dollar strength in the wage negotiations and pricing behavior of sectors of the U.S. economy that are exposed to foreign competition. Were the dollar to tumble, such discipline could be quickly lost. That would cause U.S. inflation to accelerate steadily, heading above 7% per annum three years hence, compared with less than 3% on unchanged-dollar assumptions.

The classic alternative to devaluation for a country in deep current account deficit is fiscal austerity. Scenario C in Table 1 portrays an austerity program, to be initiated in the second half of this year, that would cause U.S. domestic demand to shrink by roughly 2% per annum through 1988. No fall in the dollar is assumed. Such an outcome might be attainable by aggressive cutting of the budget deficit through increased taxation hitting private consumption and investment, with falling interest rates that stop well short of offsetting the fiscal contraction. The program would largely eliminate the current account deficit by 1989, but at daunting economic cost: the offset to depressed domestic demand from strengthening net exports would be far from complete. With U.S. real GNP declining three years in a row, unemployment could rocket above 15%, reaching the worst now prevailing in Europe.

The adverse employment effects of fiscal austerity would be muted if accompanied by significant monetary easing, in other words through a major shift in the U.S. policy mix. If all went well, this might avert a drastic fall in the dollar or any severe run-up in U.S. inflation and

Table 6

World current account balances

billions of dollars

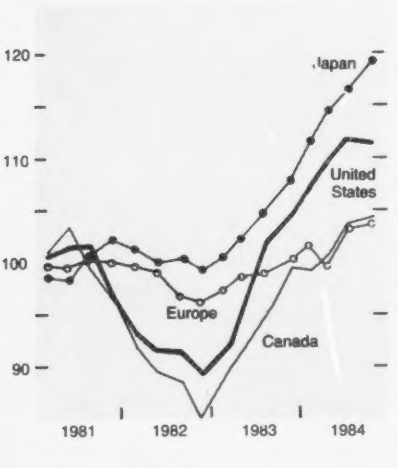
	1980	*1984*	*1985**
Industrial countries	—63.0	—60.0	—82.0
United States	1.9	—100.0	—135.0
Canada	—1.0	1.7	1.0
Japan	—10.7	35.0	45.0
Western Europe	—53.0	12.0	16.0
Germany	—15.8	6.3	7.0
France	—4.2	—0.1	0.5
United Kingdom	8.1	0.3	2.0
Italy	—9.8	—2.9	—3.0
Netherlands	—2.6	5.5	5.5
Switzerland	—1.6	3.2	3.5
OPEC	103.0	—10.0	—13.0
Non-OPEC LDCs	—63.0	—30.0	—20.0
Argentina	—4.8	—2.3	—2.0
Brazil	—12.8	—0.4	—3.0
Mexico	—7.2	4.0	1.5
China	—3.3	4.2	3.0
Korea	—5.3	—1.4	—1.0
Taiwan	—0.9	7.4	9.0
*Global discrepancy***	23.0	100.0	115.0

*Projected.
**Includes Eastern Europe and Soviet Union.

Chart 5

Manufacturing output

indices 1981 = 100



unemployment. But this policy-mix solution would place primary weight on curbing U.S. domestic demand to trim the trade deficit, entailing a cutback in U.S. living standards or investment. Moreover, wiping out the trade deficit by contracting U.S. imports would be a setback for growth and employment abroad — a major reason why foreign countries, impressed by the role of exports in their own economic growth, are so nervous about a continued sharp fall in the dollar or a U.S. recession. Although either event might encourage a decline in foreign interest rates that would somewhat stimulate their domestic demand, it is hard to believe that foreign countries would escape the traditional chill of a U.S. recession. More likely, they too would lapse into a new recession. That would cut into U.S. trade gains and inspire yet further U.S. austerity if current account adjustment were to remain the overriding goal. Thus the world could lurch into what has been termed "self-righteous depression."

Protection by surcharge

Amid simultaneous deficits in the U.S. current account and budget, an import surcharge enjoys some support as a way to deal with both problems at once. One such proposal would impose a temporary three-year surcharge on all U.S. imports, scaled down from 25% in the first year, to 12% in the second, and to 7% in the third. In the first year, for example, existing 10% tariffs would be jacked up to 35%. Scenario D in Table 1 assumes that foreigners would not retaliate against the U.S. levy but rather would stimulate their domestic economies so that reduced exports to the United States would not weaken their overall activity. Assuming that the dollar held at its present level, and that the surcharge would be passed through fully in higher U.S. import prices, the trade deficit might be cut by over two-thirds while the surcharge remained in effect. However, the improvement would be quickly reversed once the surcharge expired. Moreover, it might not materialize at all if the dollar were to appreciate, as theory suggests might well occur.

Thus, a temporary surcharge alone would not correct the trade deficit in the long run. Nor would it be a cure-all for U.S. job problems. A surcharge would depress the economy because it would constitute a tax increase. Jobs might be saved in the trade sector, but growth and employment elsewhere in the economy would be handicapped. Any trade benefit would be bought at the price of higher U.S. inflation, which could exceed 8% for a time and drive interest rates up. Another defect of a general import surcharge is that it would protect not only troubled industries, but also the less deserving. U.S. manufacturing output as a whole, though stagnant since last summer, currently is up by 13% since 1980 and by 24% since the recession (see Chart 5).

Of course, some U.S. industries have failed to share the overall expansion, even with the aid of trade restrictions. Yet Table 7 reveals that industries comprising only 15% of 1980 manufacturing employment have experienced significant output declines so far in the 1980s. The list suggests that shifting demand has outweighed deteriorating international competitiveness in the misfortunes of some. A somewhat longer list of U.S. industries has recorded declining employment during the 1980s: indeed, total manufacturing employment, though up 9% since the recession, edged lower this February and remains 6.6% below its 1979 peak. Although foreign competition may sometimes have been the dominant factor in job

Table 7

Output declines amid U.S. manufacturing recovery

industries whose output has fallen more than 1% per annum since 1980 or end-1982; parentheses after industry names show Standard Industrial Classification codes

	Annual average % output growth		*Share of total U.S. manufacturing employment*
	1980-1984Q4	*1982Q4-1984Q4*	*1980*
Cotton fabrics (221+4)	—4.9	—1.2	0.9
Fabric finishing (226)	—4.8	0.6	0.4
Carpeting (227)	—4.8	—4.0	0.3
Basic chemicals (281)	—1.0	8.8	0.8
Paints (285)	—6.0	—4.1	0.3
Agricultural chemicals (287)	—1.2	8.3	0.4
Petroleum products (29)	—1.8	0.9	1.0
Leather products (31)	—4.9	—1.2	1.2
Pressed and blown glass (322)	—1.2	2.5	0.6
Structural metal products (344)	—2.3	9.2	2.5
Engines and farm equipment (351+2)	—5.8	8.3	1.5
Construction and allied products (353)	—3.3	17.5	1.9
Major electrical equipment (361+2)	—1.7	11.7	1.8
Railroad equipment (374)	—27.5	14.6	0.4
Consumer instruments (385+7)	—1.6	4.4	0.3
Miscellaneous business supplies (395+9)	—2.4	3.6	0.9
Total			15.0
Memo:			
All U.S. manufacturing	3.0	11.4	100.0

losses, they also have been occasioned by changing technology and labor-saving investment. Besides, the employment record of U.S. manufacturing is much better than that in other mature industrial countries: for example, Germany's manufacturing jobs have dwindled more than 10% since 1980, despite the competitive benefit of the mark's 8% real effective depreciation. Nor is it the case that U.S. manufacturing is undergoing a generalized crisis of profitability. Adjusted for inventory valuation changes, its profits in 1984 were 56% above the recession low of 1982. Its inflation-adjusted after-tax rate of return on capital was substantially higher than at the turn of the decade — thanks in part to the 1981 business tax cuts.

Most troubling about the import surcharge proposal is its disregard of the risks of trade war. No matter that the surcharge were enacted to correct a recognized trade imbalance, it would be naive to suppose that foreign governments would find the political will to resist their own protectionist interest groups. Foreign retaliation could well inspire a fresh round of protectionist measures by the United States. Moreover, besides stirring enmity, a deliberate turn to protectionism in the older industrial nations would break faith with LDCs seeking export-oriented development with the encouragement of western governments.

Targeted surcharges

The objections to an import surcharge apply with persuasive force to a levy on all, or most, U.S. imports. A surcharge might instead be confined to specific products. For example, petroleum imports are mentioned for surcharge or special duty treatment, both on grounds of high revenue potential and in support of long-term conservation. An oil import tax is sometimes represented as an almost painless tax increase, given the slide since 1981 in real oil prices to U.S. consumers. However, it could be seriously destabilizing to already troubled oil markets. And, as an approach to the budget problem, it shares the defect of all tax increases in that it fails to tackle basic spending issues.

Alternatively, a surcharge might be targeted on imports from countries deemed to engage in widespread and persistently unfair trade practices. In this context, the spotlight is on Japan. Much of Japan's $37 billion trade surplus with the United States is concentrated in sensitive sectors, such as autos, electronics, and capital goods (see Table 8). Japan's propensity to pile up surpluses with almost all its major trading partners, excepting some oil and raw material suppliers (see Table 9), is a long-standing well of acrimony and frustration in international trade relations. Some complaints against Japanese trade policies are simply the predictable litany of foreign competitors vulnerable to Japan's dynamism and technological strengths. Merited or not, however, the political response of Japan's trade partners is vitally affected by perceptions of Japan's own lack of openness to imports and its restrictions on technology transfers. Even where otherwise competitive, many would-be exporters to Japan are frustrated by Japan's resistant cultural attitudes, entrenched domestic interests, traditions of administrative controls, and assorted tariff and nontariff barriers to imports. Japan's tariff structure militates against successful market penetration by nontraditional exports of its Asian trading partners, such as Indonesian plywood and boneless chicken from Thailand. Those nations have other access grievances concerning technology transfers. Nor has Europe resolved its access problems.

Table 8

U.S.-Japan trade by product

billions of dollars, CIF valuations

	US. bilateral trade balance		*U.S. imports,*
	1984	*change since 1980*	*% change, 1980-84*
Total	—37.2	—24.9	83
Food and raw materials	9.0	– 0.7	59
Oil	0.7	0.5	50
Manufactures	—47.8	—24.4	84
Chemicals	1.7	0.4	100
Semimanufactures	—6.5	—1.8	27
Iron and steel	—3.5	—0.2	6
Textiles	—0.7	—0.4	75
Autos, parts, and engines	—17.7	—6.3	54
Civilian aircraft and parts	1.0	0.1	24
Electronics	—14.5	—10.8	246
Business and data processing	—3.8	—3.6	430
Telecommunications	—3.3	—2.2	192
Consumer	—5.6	—3.5	167
Components	—1.8	—1.5	340
Other capital goods	—8.6	—6.3	153
Miscellaneous	—3.2	0.3	83
Clothing	—0.5	—0.3	150
Re-exports and other	0.9	—0.3	

Source: U.S. Department of Commerce, Office of Trade and Investment Analysis.

U.S. negotiators are currently targeting Japanese import barriers in four areas: telecommunications and satellites; computers and electronics; pharmaceuticals and medical equipment; forest products, pulp, and paper. This last area, in which the United States (and Indonesia) have superior resource endowments, involves tariff walls protecting large numbers of Japanese mills. Their political power inhibits restructuring without compensation.

The other areas all involve nontariff barriers. These have been fundamental to Japan's strategy for nurturing the commercial success and technological dynamism of what it sees as industries of the future. Seen from abroad, that strategy has depended heavily on "infant industry" protection, often maintained until such time as Japanese firms have secured enough competitive edge to dominate both home and global markets; belated removal of protection has then left minimal opportunities for remaining foreign competitors in the Japanese internal market. Japan now seems to be targeting the same high-technology industries in which the United States finds most promise, industries in which the U.S. trade record is quite liberal with respect to foreign participation, at least when national security considerations are secondary. With reciprocity arguments hardly below the surface, the United States is urging a correspondingly liberal regime upon Japan, taking exception, for example, to Japan's apparent intention to debar foreign ownership interest in NTT, its telecommunications utility — on national security grounds that the British did not find compelling.

Nothing less than a powerful shock — on the order of the Nixon and oil shocks of the 1970s — is likely to jolt Japan into radical reordering of its trade strategy. Its number-two rank among free-world economies now demands that Japan shed a self-image that allows imports of raw materials, but of the fewest foreign manufactures possible. That self-image is deep-rooted in Japan's bureaucracy and society at large. In this light, the just-announced last minute "concessions" on telecommunication, while welcome in themselves, are primarily of symbolic value. They mark no more than a first step toward correcting Japan's huge trade surpluses, globally and vis-à-vis the United States. Heavy and continuing pressure will be needed to change Japanese values and practices in a fundamental way in order to achieve real progress on the trade front. New instruments of pressure may have to be employed. A targeted surcharge on U.S. imports from Japan, for example, would speak volumes. Insofar as it would avoid the binding distortions and irrational incidence of costs and benefits that arise under quotas or "voluntary" restraints, it would be the least protectionist of evils. Moreover, it would not be imposed with protectionist intent. Rather, a substantial targeted surcharge, with standby authority for a still higher levy, could play a highly constructive bargaining role in opening up Japan's sheltered markets and in making a reality of the two-way trade on which a liberal world trade order must ultimately rest.

An international strategy: a better approach

The foregoing analysis argues that correction of the U.S. external imbalance by unilateral U.S. policy changes alone would threaten the strength of the U.S. economy without assured benefit to the rest of the world. Much better results could be obtained through an international approach involving wide-ranging policy reforms, recognizing that

Table 9

Bilateral orientation of Japan's trade

billions of dollars, CIF valuations

	Japan's bilateral trade balance		*Japan's imports, % change, 1980-84*
	1984	*change since 1980*	
Total	33.7	10.7	—3
Industrial countries	37.9	—12.1	15
United States	33.1*	—7.0	10
Canada	—0.6	2.3	5
Western Europe	10.9	—11.1	25
Australia	—2.1	3.6	5
OPEC	—26.5	31.6	—20
Brazil	—1.4	0.4	28
Mexico	—1.4	—0.3	142
China	1.3	—0.8	38
Hong Kong	5.7	—4.2	48
Korea	3.0	—2.4	41
Malaysia	—1.5	1.4	27
Philippines	—0.3	0.3	—27
Singapore	2.8	—2.4	18
Taiwan	2.8	—2.9	40
Thailand	1.4	—0.8	—7

*$37.2 billion by U.S. CIF valuation (see Table 8).

these can only be put into effect gradually over a period of years. The strategy should stress the narrowing of the twin U.S. deficits by creating positive opportunities for living standards and investment worldwide; and the removal of the barriers to internal and external trade that shelter waste and inefficiency.

In situations of payments imbalance, there has always been a tendency to demand adjustment of deficit nations without parallel adjustment by those in surplus. It is now high time to tackle not just the U.S. current account deficit, 2.8% of GNP last year, but also the similar surplus of Japan and the still larger surpluses of the Netherlands, Switzerland, and Taiwan (4.5%, 3.5%, and 13%, respectively).

No international strategy will go anywhere without committed U.S. leadership, beginning with steady and substantial progress in curbing the federal budget deficit. The deficit should be cut at least in half during the next three years. The Administration and the Senate Budget Committee broadly agree on some $50 billion as the FY 1986 installment. While sharp differences continue over the distribution of cuts, compromise on an acceptably balanced package now begins to look possible. If the full amount cannot be secured by spending cuts, an element of revenue enhancement may have to be conceded.

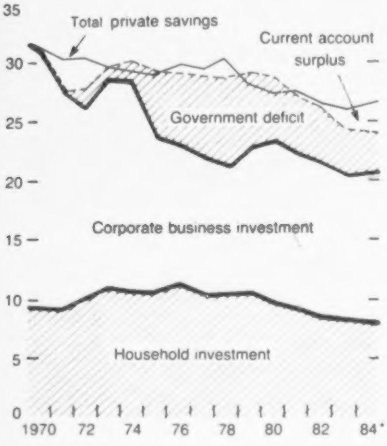
For the purpose of narrowing the trade deficit, which represents the shortfall of domestic savings below investment, it matters little whether investment is cut back or savings are increased. How that balance is struck, however, makes a great deal of difference for the future vitality of the U.S. economy. Accordingly, there is a close economic linkage between deficit cutting — which would lessen government preemption of private savings — and tax simplification. The challenge lies in preserving investment while curbing public and private consumption. That would be no mean feat, since consumption is a prime mover of investment. Probably the best that can be done is to secure a favorable tax environment for investment so that it will not suffer unduly as consumption is curtailed. This is the basic reason to subordinate tax increases to expenditure reductions as the means to cut the budget deficit. As for tax simplification, any restructuring of investment incentives in this "age of the entrepreneur" should aim to lighten the tax burden on activities that are fundamentally productive, if necessary at the expense of those lacking clear economic worth. At the same time, deregulation of financial services should be pushed ahead so that new investment may be more efficiently allocated and the capital stock be better utilized.

One aspect of tax simplification has important international implications. Reduction of marginal tax rates, on both business and individuals, should lower the level of nominal pretax interest rates required to achieve a given restraint in credit demands. Suppose, for example, that a borrower can afford aftertax real interest costs of no more than 3% while inflation runs at 3%. At a marginal tax rate of 50%, full deductibility of interest costs enables the borrower to carry a pretax nominal interest rate of 12%. But if the marginal tax rate falls to 33%, the maximum viable pretax nominal interest rate comes down to 9%. Thus, tax simplification has the potential to induce a significant fall in U.S. interest rates, which would be most helpful for developing countries and which could also lessen currency pressures on U.S. industry.

If the U.S. current account deficit is to narrow, so also must Japan's outsized surplus. For Japan, the reduction should be at least $25 bil-

Chart 6

Japan's savings – investment gap
percent of GNP



* estimated

lion over the next three years. Japan's excess of private saving over private domestic investment has been very large since the early 1970s (see Chart 6). Although Japan's savings rate has eroded, the domestic investment rate has fallen much more. While some of the excess is drained off by public-sector dissavings, much of the remainder is said to be structural.

There are several ways in which Japan could tackle its savings-investment gap. First, even though there may be little scope for stepped-up business investment targeted to domestic needs, that is far from the case with potential public investment in Japan's relatively neglected areas, such as public housing, sewers, education, and cultural and recreational facilities. In principle, tax increases could finance such investment without widening the budget deficit, yet still provide a net stimulus to domestic demand.

Second, Japan's personal savings propensity is unnaturally high for a maturing industrial society, notwithstanding its former virtues during the era of postwar reconstruction. While the accumulation of foreign assets may be an attractive option for the future support of an aging population, the accompanying trade surpluses exact a heavy price in Japan's relationships with trade partners. High personal savings rates could be diminished by tax reforms to correct the anticonsumption bias of the tax code due to its effective exemption of most household interest earnings; and by financial reforms to cut the cost, and increase the availability, of consumer and mortgage credit.

Third, the government's deficit reduction commitment should be reconsidered. The pileup of public debt is no real problem in the context of the chronic domestic savings excess. It does dictate more sophisticated debt management techniques than were formerly necessary, but these are all to the good in furthering needed liberalization of the financial system. Overhaul of Japan's budget deficit goals need not invite wasteful spending. Given Japan's limited defense expenditures of barely 1% of GNP, an appropriate object of increased spending would be official development aid, currently a mere 0.3% of GNP and predominantly tied to Japanese exports. A reduction in Japan's personal tax burden also would be worthwhile, bringing possible supply-side benefits as well as a boost for disposable incomes and consumption.

Whereas Japan should be stimulating domestic demand primarily for the purpose of bringing down its trade surplus, the main object of domestic stimulus in Europe must be faster growth and the reduction of unemployment. The jobless rate in the four major countries has averaged over 10% during the last three years and still shows no definite sign of coming down. Europe's present economic growth rate is making no inroad on the past shortfall of output below potential. Europe's inflation is stable or falling, being hardly more than 2% in Germany despite the weakness of its currency. Germany also enjoys a sizable current account surplus. Despite the apparent leeway for domestic stimulus, most European governments oppose reversal of their commitments to cut budget deficits further — even where, as in Germany, the deficits are wholly explained by the depressed cyclical situation. Deficit discipline is widely seen as the only viable means to contain public spending. Certainly, spending restraint is much needed in economies where the dominance of the public sector is a major source of institutional rigidity and where social transfers impede flexible functioning of labor markets. Preoccupied with expenditure control, however, European governments have been timid in reforming tax structures, let alone in reducing overall tax burdens. Henceforward, tax reduction should be Europe's top priority to boost consumption and investment.

Stepping up Europe's domestic growth by two percentage points could slice one-third from the unemployment rolls after three years. Even if budget deficits widen, there is ample evidence by now, from Japan and the United States for example, that taut monetary policies can inhibit any significant inflation penalty. True, more expansionary policies would shrink Europe's trade surpluses, but that would be a setback only in primitive mercantilist terms.

The need for Japan and Europe to acquiesce in lower trade surpluses is all the greater in view of the financial constraints on developing countries. While much has been achieved in terms of balance of payments improvement, much remains to be done in tackling entrenched internal obstacles to market-disciplined development. Internal reforms, featuring realistic interest and exchange rates to tame actual or incipient hyperinflation, offer the only promise of finally halting and reversing capital flight. Unless local investors regain confidence in opportunities at home, developing countries have little hope of attracting substantial foreign investment — especially if outmoded nationalist sensitivities block potential foreign investors who are free to choose production locations around the world. Once thoroughgoing reforms are implemented, foreign direct investment and the return of flight capital can provide valuable financial support to developing countries. For some time to come, however, it is simply unrealistic to suppose that capital flows from either commercial or official sources will enable LDCs to run large current account deficits or to step up their imports from the United States to an extent that will provide a major reduction in the U.S. deficit. Equally, abrupt shrinkage of U.S. imports in the interest of deficit reduction would see the LDC debt crisis come back with a vengeance.

The final leg of an international strategy for economic progress is the new round of global trade negotiations that President Reagan has proposed. Unless protectionist impulses are defused by multilateral talks that are under way and progressing, national trade policies are likely to go backward. Besides access issues vis-à-vis Japan, the United States has major trade grievances with Europe — notably in agriculture, high technology, and services — and with most developing countries concerning services and direct investment. For their part, U.S. trade partners have frictions one with another and, collectively, vis-à-vis the United States over its protectionist stance in agriculture, textiles, steel, and other basic manufactures. With Europe's reservations about a "new" trade round now seemingly lessening, the summit leaders should set a firm schedule for actual negotiations. Previous summits have paid lip service to free trade. Realistically, no doubt, trade will always be "managed," but its management should at least be liberal and constructive.

What the strategy can accomplish

The international strategy just outlined is ambitious. Because the strategy involves structural reforms and policy adjustments, whose timing and consequences are less than certain, the course of the U.S. trade deficit cannot be foreseen with precision. However, Scenario E in Table 1 illustrates the general magnitudes of the potential benefits. Comparison of the five scenarios demonstrates the clearly superior results achievable through the international strategy. It lessens the financial, economic, and political risks of sheer inaction. It calls for global trade expansion, not contraction. And it averts the very real risk of world recession posed by the purely belt-tightening approach of those who pin all the world's evils on the U.S. budget deficit; instead, it shows the crucial importance of expansionary policies in Japan and Europe concurrent with U.S. fiscal progress. In addition, the international strategy avoids the inflationary upsurge that sole reliance on drastic dollar devaluation would breed. Nonetheless, it does envisage a moderate depreciation of the dollar over the next three years, to a real effective index level of around 110 in 1988 — 15% below the present level. Because the dollar would remain well above its 1980-82 base period level, its decline would have only a mild impact on U.S. inflation. Depreciation of the suggested order is the more likely to occur the sooner the other elements of the international strategy come into place. Changing the direction of the dollar by the above magnitude is most likely to occur once the several elements of the international strategy come into place. Exchange market intervention will not turn the trick. At best it can only assist short-term stabilization.

With this international strategy, the U.S. current account deficit could be brought down to about $25 billion by 1989, a level consonant with the probable U.S. share in global overstatement of current account deficits. The trade deficit would begin to shrink as early as the end of this year. As for domestic consequences, gradual fiscal contraction would cause domestic demand to grow less than U.S. economic potential. But the improvement in net exports would mean that U.S. real GNP could rise marginally faster, enabling considerable reduction of U.S. unemployment. The dollar's moderate decline would provide meaningful competitive relief to U.S. industry, without triggering a destructive surge in wages and prices. Indeed, U.S. inflation would be capped at about 5%, while the projected decline in nominal U.S. interest rates would eventually bring real interest rates down to 3%. While the strategy does not promise further gains on inflation, its other benefits would be impressive.

All this presumes that real GNP growth in the industrial countries, excluding the United States, exceeds 4.5% during the next four years. That would compare with the 2% rate accomplished from 1980 to date and would effectively reverse the growth gap that has prevailed vis-à-vis the United States since the recession. Although, at first sight, recent experience argues against such a pickup in foreign growth, the projected rate is not out of line with what was actually achieved during the second half of the 1970s. What it now would involve is Japanese growth averaging around 1% higher than existing policies suggest and European growth sufficient to cut unemployment significantly.

Failure to adopt this balanced international strategy poses the grave danger that the U.S. trade deficit will be corrected by undesirable means. There are incalculable risks to the world economy in opting for protectionism that breeds bitterness; for deep devaluation of the dollar that inflames inflation; or for needless cutbacks in U.S. living standards or investment that lead only to global recession and still greater unemployment. The challenge to the summit leaders at Bonn is to avoid the risks embodied in these shortsighted approaches. Instead, they must seek to direct the major countries along the lines of the international strategy outlined in this article. It is the only means of solving the U.S. trade problem in a climate of economic growth and opportunity.

Statistical appendix

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Information herein is from sources considered to be reliable but is furnished without responsibility on the part of Morgan Guaranty Trust Company.

Nominal effective exchange rates

Index numbers, 1980-82 average=100. Each index shows a currency's trade-weighted appreciation or depreciation measured against 15 other major currencies, using averages of daily noon spot exchange rates in New York and bilateral trade weights based on 1980 trade in manufactures. Annual figures are calendar year averages.

	United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Belgium	Neth-erlands	Spain	Swit-zerland	Den-mark	Norway	Swe-den
1980	90.7	100.4	95.5	96.0	106.5	100.0	108.4	99.8	99.4	105.9	100.2	106.5	95.4	105.1	98.2	103.9
1981	99.5	100.2	105.8	104.0	100.4	97.2	98.8	102.1	98.9	101.8	97.1	99.4	98.3	99.2	100.1	103.3
1982	109.8	99.4	98.6	100.1	93.1	102.8	92.8	98.1	101.7	92.3	102.7	94.1	106.3	95.7	101.7	92.8
1983	114.2	100.8	107.8	92.0	87.3	107.6	90.3	91.6	103.6	90.0	105.0	78.4	111.5	96.4	99.4	82.2
1984	122.4	97.3	113.0	94.2	84.4	107.4	86.7	88.1	103.6	88.9	104.0	77.4	110.5	93.9	97.8	84.3
1984																
April	116.7	97.5	115.7	95.1	85.2	108.6	87.3	88.9	104.1	89.0	104.8	78.1	111.3	94.0	98.9	83.7
May	119.5	96.8	114.6	95.1	84.6	107.7	88.9	89.1	103.8	88.8	104.4	78.4	110.9	93.6	99.1	83.6
June	120.2	96.2	113.3	93.0	84.9	108.2	87.0	88.6	104.2	88.9	104.6	78.0	110.1	93.8	99.1	83.4
July	124.2	95.4	110.8	90.3	84.6	107.7	87.3	87.7	104.1	89.3	104.0	77.3	107.9	93.7	97.4	84.4
August	124.0	97.0	111.4	91.9	84.3	107.3	86.6	87.9	103.8	89.3	103.8	76.6	108.8	93.6	97.1	84.6
September	127.3	96.7	112.0	92.1	83.6	106.2	85.9	87.1	103.2	88.9	103.1	76.9	109.3	93.2	96.9	85.6
October	128.5	96.6	112.0	93.6	83.7	106.3	85.7	85.3	103.2	88.7	103.2	77.0	109.8	93.4	97.1	85.6
November	126.8	96.5	112.5	95.0	84.0	106.7	85.6	85.2	103.4	89.3	103.5	77.4	110.2	94.2	95.5	85.1
December	129.5	96.7	112.0	94.8	83.6	106.1	86.0	83.7	103.2	89.3	103.0	77.8	109.5	94.5	95.5	85.0
1985																
January	132.0	96.9	110.5	93.8	83.7	106.2	86.3	81.0	103.4	89.9	103.0	78.1	107.8	95.0	95.7	85.0
February	136.4	95.3	110.0	86.8	83.5	105.8	85.4	81.4	103.3	89.3	102.5	77.6	105.9	94.4	95.8	85.5
March	136.8	93.2	111.3	81.6	83.7	106.0	83.6	84.0	103.2	89.0	102.6	77.2	105.9	94.1	95.7	84.5
February 15	135.5	96.3	109.7	88.1	83.5	106.3	85.8	81.0	103.4	89.3	102.3	77.8	105.3	94.5	95.9	85.5
22	137.7	94.8	110.4	82.8	83.3	105.5	85.2	81.7	103.3	89.0	102.2	77.6	106.2	94.1	95.9	85.8
March 1	139.1	93.1	111.3	84.2	83.4	105.5	84.2	81.2	103.3	88.8	102.3	77.2	105.6	94.1	95.8	85.4
8	139.7	92.7	111.5	82.5	83.4	105.6	84.5	81.4	102.8	88.8	102.4	77.0	105.1	93.9	95.6	85.0
15	138.7	93.1	111.3	82.2	83.6	105.7	84.0	82.2	102.9	89.1	102.4	77.0	105.7	94.0	95.6	84.6
22	135.6	93.5	111.4	81.2	83.7	106.0	83.1	85.2	103.3	88.9	102.7	77.4	106.2	94.2	95.8	84.5
29	133.0	93.3	111.2	80.0	84.2	106.4	82.9	87.5	103.5	89.0	102.9	77.4	106.7	96.5	95.7	83.9

Real effective exchange rates – industrial countries

Index numbers, 1980-82 average=100. Each index is the corresponding nominal effective exchange rate adjusted for differential inflation in wholesale prices of nonfood manufactures. Underlying price data are partly estimated. Index revisions reflect revised price information or, less frequently, adoption of new price indices to measure inflation in one or more countries.

	United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Belgium	Neth-erlands	Spain	Swit-zerland	Den-mark	Norway	Swe-den
1980	89.4	99.6	103.0	93.0	102.2	103.5	103.5	99.9	100.2	107.5	99.9	100.9	98.7	103.5	96.6	101.2
1981	100.6	100.0	104.6	102.7	100.1	97.3	98.7	102.3	99.1	100.3	97.6	99.4	98.7	99.2	100.9	102.1
1982	109.9	100.4	92.3	104.3	97.7	99.2	97.7	97.9	100.7	92.3	102.5	99.8	102.6	97.3	102.5	96.7
1983	112.6	103.1	96.6	100.0	95.9	99.3	100.1	92.0	101.6	92.0	101.8	90.6	105.3	98.8	101.2	91.5
1984	118.1	101.2	97.6	105.1	96.4	96.5	100.9	89.2	102.5	90.6	100.1	95.1	102.0	96.4	100.1	96.9
1984																
April	113.0	101.4	100.4	105.2	96.6	97.9	101.2	89.9	103.0	90.6	101.3	95.0	103.2	95.5	101.0	95.5
May	115.7	100.5	99.1	105.6	97.0	96.8	101.1	90.1	102.4	90.9	100.5	95.6	101.7	95.5	101.7	95.7
June	116.4	99.9	97.7	103.6	97.2	97.0	101.3	89.6	102.9	90.8	100.9	95.8	101.1	97.1	101.2	95.3
July	119.9	99.5	95.3	101.1	97.4	96.6	101.7	88.8	102.8	90.8	100.2	95.1	98.8	95.3	99.0	97.0
August	119.4	101.1	95.9	103.2	96.8	96.0	101.3	89.2	102.7	91.2	99.9	94.3	100.3	95.8	98.5	97.8
September	121.4	101.3	96.7	103.8	95.9	95.1	100.9	88.5	101.8	90.8	99.1	95.6	100.6	97.1	99.4	98.9
October	123.6	100.3	96.0	105.0	96.0	95.2	100.7	86.6	101.6	90.2	98.9	96.0	101.4	96.6	100.1	99.1
November	122.0	100.4	96.2	106.9	96.9	95.4	100.4	86.7	102.4	90.6	98.9	97.1	101.5	98.0	98.3	98.4
December	124.1	101.1	95.6	106.9	96.7	94.7	100.9	85.4	102.2	90.5	98.4	97.9	101.2	98.2	98.0	98.7
1985																
January	126.2	101.3	94.1	105.6	96.5	95.1	102.0	83.3	102.2	90.4	97.9	98.8	99.3	97.8	97.4	99.6
February	130.0	100.0	93.6	97.8	96.5	94.8	101.1	83.9	101.9	89.6	97.2	97.9	97.6	96.9	97.3	100.5
March	130.2	97.8	94.5	92.0	96.8	95.0	99.1	86.9	101.8	89.0	97.0	97.8	97.7	96.4	96.8	99.7

Real effective exchange rates – developing countries

Index numbers, 1980-82 = 100

	Argentina	Brazil	Chile	Colombia	Mexico	Peru	Venezuela	Hong Kong	Indonesia	Korea	Malaysia	Philippines	Singapore	Taiwan	Israel	Turkey
1980	116.4	84.7	95.3	94.7	103.7	93.1	91.3	98.4	89.6	95.9	96.2	94.7	98.6	100.9	92.9	102.9
1981	108.0	103.5	108.1	100.5	112.4	103.2	99.6	99.5	99.6	101.2	99.5	100.5	102.7	102.6	99.3	102.5
1982	76.1	112.2	96.6	104.8	83.9	103.7	109.1	102.6	110.8	103.0	104.8	104.9	98.7	96.5	107.8	94.6
1983	71.3	85.6	88.8	103.9	85.6	97.6	116.0	97.0	95.6	97.3	113.0	94.3	97.1	93.1	119.5	95.3
1984	80.1	85.4	89.9	99.3	103.5	100.5	84.4	100.7	98.1	95.8	119.3	108.1	95.8	95.4	118.1	87.7
1984																
March	75.3	80.2	87.3	99.2	96.5	103.6	71.1	95.3	93.7	93.9	115.8	104.2	95.4	91.8	114.6	83.0
April	80.4	79.0	88.8	99.2	99.3	102.7	71.5	96.5	93.9	94.0	116.6	106.3	95.8	92.6	115.0	83.2
May	84.0	80.8	89.8	99.7	102.1	103.5	74.0	98.1	95.6	94.8	118.3	111.6	95.9	94.1	116.7	85.7
June	83.5	83.3	90.3	98.9	103.2	99.3	77.2	98.6	96.5	95.1	118.7	101.6	95.2	94.5	117.5	85.5
July	85.9	86.3	91.4	99.4	104.6	98.8	79.6	100.9	98.9	96.0	121.0	105.3	95.6	96.6	117.7	87.1
August	86.2	86.2	92.5	99.2	104.2	99.8	83.5	101.2	105.9	96.1	121.6	107.0	96.1	97.5	119.1	89.5
September	88.9	88.6	93.1	100.2	105.7	100.1	82.7	104.0	105.9	97.5	123.7	114.4	96.7	98.9	122.0	90.3
October	82.1	89.9	89.7	98.5	107.6	99.1	83.8	105.7	97.8	97.2	121.3	113.1	96.0	98.1	122.1	91.4
November	73.1	88.5	88.3	97.8	108.7	96.1	84.5	105.1	96.3	96.3	119.9	109.7	94.9	96.7	119.0	91.2
December	76.2	91.1	87.1	98.8	110.2	93.5	85.3	108.0	98.6	96.8	121.0	112.6	95.3	97.3	113.5	92.0
1985																
January	73.1	94.2	88.4	99.9	111.2	90.3	87.5	110.4	99.9	96.9	122.3	135.8	95.5	98.2	110.7	92.6
February	73.0	93.5	90.0	101.0	113.6	82.9	89.9	113.3	106.0	97.9	120.9	138.7	95.6	100.3	119.3	95.0

International banking market size

at end of period, billions of dollars

	1980r	*1981r*	*1982r*	*1983*		*1984*		
				Sepr	*Decr*	*Marr*	*Junr*	*Sep*
Gross claims								
Eurocurrencies, on residents and nonresidents	**1 559**	**1 924**	**2 140**	**2 193**	**2 253**	**2 341**	**2 325**	**2 321**
On nonbanks	430	579	705	658	712	736	719	727
On banks	1 129	1 345	1 435	1 535	1 542	1 605	1 606	1 594
In dollars	1 167	1 505	1 696	1 748	1 796	1 842	1 846	1 856
In other currencies	392	419	444	445	457	499	479	465
Domestic currencies, on nonresidents	**349**	**370**	**405**	**402**	**405**	**409**	**415**	**402**
On nonbanks	143	154	264	179	143	145	149	147
On banks	206	216	141	223	262	264	266	255
In dollars	177	194	220	219	224	215	227	217
In other currencies	172	176	185	183	181	194	186	185
Total	**1 908**	**2 294**	**2 545**	**2 595**	**2 658**	**2 750**	**2 740**	**2 723**
On nonbanks	573	733	969	837	855	881	868	1 849
On banks	1 335	1 561	1 576	1 758	1 804	1 869	1 872	874
In dollars	1 344	1 699	1 916	1 967	2 020	2 057	2 073	2 073
In other currencies	564	595	629	628	638	693	665	650
Gross liabilities								
Eurocurrencies, to residents and nonresidents	**1 574**	**1 950**	**2 164**	**2 217**	**2 280**	**2 385**	**2 362**	**2 350**
To nonbanks	278	392	457	448	496	518	523	513
To official monetary institutions	127	113	91	88	88	85	88	94
To other banks	1 168	1 446	1 616	1 681	1 696	1 782	1 751	1 743
In dollars	1 193	1 538	1 744	1 736	1 849	1 885	1 907	1 914
In other currencies	381	412	420	481	431	480	455	436
Domestic currencies, to nonresidents	**284**	**267**	**255**	**250**	**263**	**268**	**284**	**280**
To nonbanks	85	177	167	85	77	77	77	78
To banks	199	90	88	165	186	191	207	202
In dollars	139	130	121	120	138	134	147	146
In other currencies	145	137	134	129	125	134	137	134
Total	**1 858**	**2 217**	**2 419**	**2 467**	**2 543**	**2 633**	**2 646**	**2 630**
To nonbanks	363	569	624	533	573	595	600	591
To banks and official institutions	1 494	1 649	1 795	1 934	1 970	2 038	2 046	2 039
In dollars	1 332	1 669	1 865	1 857	1 987	2 019	2 064	2 060
In other currencies	526	548	554	610	556	614	582	570
Net market size	**941**	**1 176**	**1 332**	**1 333**	**1 343**	**1 353**	**1 371**	**1 351**

International bond issues and bank credits

millions of dollars

	1982	1983	1984r	1984	1985		Jan-Feb	
				Decr	Janr	Feb	1985	1984
By country of borrower								
Industrial countries	**108 772**	**102 652**	**177 077**	**11 997**	**17 886**	**15 260**	**33 147**	**30 143**
Australia	7 213	5 737	5 816	600	752	871	1 623	484
Austria	2 068	1 290	2 254	203	337	—	337	599
Belgium	1 528	2 168	1 847	—	400	35	435	86
Canada	15 856	8 571	13 124	4 100	4 414	859	5 272	2 068
Denmark	2 725	3 941	4 825	182	398	394	792	891
Finland	1 446	1 271	1 713	42	305	100	405	335
France	14 813	8 626	11 298	723	899	1 536	2 436	2 204
Germany	1 101	3 197	2 165	167	287	104	390	754
Greece	808	1 291	1 551	204	297	172	469	—
Ireland	1 136	1 869	1 377	65	498	38	536	99
Italy	6 687	4 876	6 933	292	661	1 421	2 082	951
Japan	8 397	14 428	17 526	588	2 612	1 821	4 433	4 203
Netherlands	1 000	1 213	1 973	—	139	106	245	439
New Zealand	4 786	802	3 208	40	311	53	364	131
Norway	2 601	1 969	1 324	73	100	138	238	125
Portugal	1 684	1 030	1 796	70	20	242	262	271
South Africa	1 889	1 300	1 422	21	179	22	202	227
Spain	2 675	4 977	4 931	174	209	702	911	1 104
Sweden	3 181	7 144	11 256	59	649	590	1 239	721
United Kingdom	2 836	2 726	8 899	616	492	931	1 423	1 923
United States	21 109	20 276	65 054	3 607	3 835	4 935	8 770	12 154
*Other**	3 233	3 950	6 785	171	94	190	284	374
Developing countries	**49 023**	**38 256**	**39 725**	**6 163**	**1 933**	**824**	**2 757**	**11 509**
Latin American countries	**29 667**	**15 592**	**17 464**	**4 450**	**196**	**251**	**447**	**6 725**
Argentina	1 565	1 750	4 212	4 200	—	—	—	—
Brazil	5 972	4 475	6 649	—	—	—	—	6 500
Chile	1 194	1 405	784	—	—	—	—	—
Colombia	776	552	589	—	—	—	—	195
Mexico	9 968	5 138	3 918	—	—	—	—	—
Venezuela	7 241	237	—	—	—	—	—	—
*Other***	2 951	2 035	1 312	250	196	251	447	30
Asian countries	**11 723**	**12 978**	**15 893**	**1 073**	**657**	**514**	**1 170**	**3 035**
India	555	968	945	40	200	42	242	50
Indonesia	1 822	2 363	1 924	—	—	—	—	765
Korea	3 277	4 387	6 201	151	247	72	318	682
Malaysia	2 872	2 197	2 605	862	—	—	—	804
Philippines	888	878	925	—	—	—	—	—
Thailand	414	747	1 221	—	—	400	400	380
Other	1 895	1 438	2 072	20	210	—	210	354
Middle Eastern and African countries	**7 633**	**9 686**	**6 368**	**640**	**1 080**	**60**	**1 140**	**1 749**
Algeria	86	1 993	821	—	600	—	600	—
Nigeria	2 069	2 343	985	—	—	—	—	985
Turkey	277	1 106	741	—	—	—	—	350
Other	5 201	4 244	3 821	640	480	60	540	414
Eastern European countries	**1 479**	**1 294**	**3 244**	**80**	**536**	—	**536**	**777**
Hungary	340	741	1 386	80	230	—	230	412
Soviet Union	1 131	93	1 051	—	206	—	206	365
*Other****	8	460	807	—	100	—	100	—
International organizations****	**11 353**	**16 201**	**13 287**	**1 392**	**1 756**	**1 368**	**3 124**	**2 355**
By type of instrument and currency								
International bond issues	**78 042**	**76 329**	**107 411**	**7 439**	**13 305**	**13 928**	**27 233**	**20 088**
Eurobonds	51 645	48 501	79 458	5 740	10 944	11 909	22 853	15 204
U.S. dollar	43 959	38 428	63 593	4 654	7 887	10 468	18 355	12 473
German mark	2 588	3 817	4 604	210	1 075	142	1 216	869
British pound	748	1 947	3 997	238	199	189	389	822
Japanese yen	374	212	1 212	313	545	546	1 091	107
European composite units	1 980	2 019	3 032	197	457	239	696	601
Other	1 996	2 078	3 020	128	781	325	1 106	332
Foreign bonds	26 397	27 828	27 953	1 699	2 361	2 019	4 380	4 884
U.S. dollar	5 946	4 545	5 487	600	500	300	800	300
German mark	2 952	2 671	2 243	354	158	89	247	469
British pound	1 214	811	1 292	—	—	65	65	267
Swiss franc	11 432	14 299	12 626	379	991	1 141	2 132	2 905
Japanese yen	3 418	3 772	4 628	225	502	334	837	513
Other	1 435	1 730	1 677	141	210	90	299	430
International bank credits	**92 585**	**82 074**	**125 922**	**12 193**	**8 806**	**3 524**	**12 330**	**24 696**
Eurocurrency credits	85 015	74 222	112 605	11 558	8 441	3 129	11 570	22 545
Foreign credits	7 570	7 852	13 317	635	365	396	761	2 151
Total	**170 627**	**158 403**	**233 333**	**19 632**	**22 111**	**17 452**	**39 563**	**44 784**

*Includes multinational organizations. **Includes unallocated. ***Includes COMECON institutions. ****Includes regional development organizations.

Eurocurrency deposit rates

prime banks' bid rates, at or near end of month

	1981	1982	1983	1984					1985	
	Dec	Dec	Dec	Aug	Sep	Oct	Nov	Dec	Jan	Feb
Eurodollar										
overnight	12.87	9.25	9.50	11.50	11.63	9.81	8.69	8.63	8.50	8.44
one month	13.31	9.13	9.69	11.69	11.00	9.75	8.81	8.38	8.31	8.88
three months	13.75	9.19	9.81	11.88	11.38	10.00	9.06	8.63	8.44	9.44
six months	14.81	9.50	10.06	12.13	11.56	10.25	9.50	9.13	8.69	10.00
twelve months	14.75	9.63	10.38	12.63	11.81	10.81	10.06	9.81	9.31	10.75
Euro-Canadian dollar										
one month	15.37	10.00	9.13	12.13	11.88	11.38	10.88	9.88	9.63	10.38
three months	15.37	10.00	9.50	12.13	12.06	11.38	10.50	10.81	9.63	11.19
six months	16.37	10.13	9.75	12.38	12.00	11.56	10.56	10.06	9.63	11.75
twelve months	16.37	10.25	10.00	12.63	12.06	11.63	10.56	10.44	9.88	12.06
Euro-french franc										
one month	15.75	23.00	12.13	10.88	10.94	10.38	10.69	10.69	10.31	10.63
three months	17.00	24.00	12.19	11.88	11.25	10.69	10.88	10.69	10.56	11.00
six months	18.00	22.00	12.31	11.19	11.69	11.31	11.19	11.00	11.00	11.44
twelve months	18.25	19.75	12.63	12.69	12.13	11.75	11.63	11.38	11.63	11.88
Euromark										
one month	10.44	5.88	5.25	5.31	5.44	5.56	5.56	5.50	5.75	5.81
three months	10.50	5.88	5.88	5.50	5.75	5.81	5.56	5.50	6.00	6.06
six months	10.56	5.94	6.13	5.88	5.94	5.81	5.63	5.56	6.06	6.38
twelve months	10.25	6.00	6.38	6.19	6.00	5.88	5.69	5.56	6.13	6.56
Euro-Dutch guilder										
one month	10.75	5.13	5.81	6.06	6.00	5.81	5.63	5.69	6.00	6.81
three months	10.75	5.19	6.00	6.25	6.25	6.00	5.81	5.75	6.13	7.06
six months	10.75	5.38	6.25	6.56	6.38	6.13	5.88	5.81	6.19	7.13
twelve months	10.75	5.63	6.38	6.81	6.50	6.25	6.00	5.94	6.31	7.31
Euro-Swiss franc										
one month	8.87	2.81	3.38	4.50	4.69	4.63	5.13	4.44	5.38	5.50
three months	9.25	3.25	3.75	4.69	5.13	5.06	4.94	4.56	5.38	5.75
six months	9.25	3.44	3.94	4.81	5.19	5.06	4.94	4.63	5.31	5.81
twelve months	8.50	3.44	3.94	5.00	5.06	5.00	4.94	4.69	5.19	5.63
Eurosterling										
one month	15.37	10.56	9.13	10.75	10.69	10.63	9.69	9.50	13.13	14.00
three months	15.69	10.44	9.31	10.69	10.69	10.50	9.69	9.88	12.50	13.88
six months	15.69	10.31	9.50	10.63	10.69	10.44	9.81	10.00	11.94	13.13
twelve months	15.37	10.31	9.81	10.75	10.75	10.56	10.00	10.19	11.88	12.69
Euroyen										
one month	6.12	6.75	6.25	6.38	6.13	6.13	6.50	6.19	6.19	6.50
three months	6.12	6.75	6.31	6.31	6.31	6.31	6.31	6.19	6.31	6.38
six months	6.87	7.10	6.38	6.31	6.31	6.31	6.31	6.13	6.25	6.31
twelve months	6.87	6.81	6.44	6.50	6.44	6.31	6.31	6.13	6.25	6.31
European currency unit										
one month	14.63	12.44	8.81	9.06	9.63	9.50	9.19	9.25	9.94	9.94
three months	14.75	12.31	9.19	9.31	9.81	9.69	9.31	9.38	9.94	10.06
six months	15.00	12.00	9.44	9.94	10.06	9.81	9.38	9.50	9.94	10.13
twelve months	14.56	11.19	9.63	10.25	10.25	10.00	9.69	9.63	9.94	10.13

International bond yields

average yield of several actively traded, high quality issues with a maturity of 7 to 12 years at or near end of month

	1982	1983	1984						1985	
	Dec	Dec	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
United States companies										
Eurodollar	11.16	11.59	12.70	11.97	12.09	11.85	11.17	11.25	11.05	11.65
Euromark	7.24	7.34	7.74	7.40	7.30	7.19	7.08	6.95	7.19	7.57
Swiss franc	5.70	5.83	5.76	5.69	5.72	5.78	5.70	5.73	5.85	5.95
European governments										
Eurodollar	12.53	12.65	13.61	13.03	12.92	12.49	12.00	12.04	11.72	12.40
Euromark	8.10	8.12	8.31	7.94	7.78	7.61	7.43	7.39	7.54	7.88
Swiss franc	5.40	5.63	5.47	5.38	5.39	5.40	5.43	5.24	5.17	5.35
European currency unit	n.a.	11.77	11.60	11.58	11.43	11.00	10.79	10.64	10.62	10.65

Central bank discount rates

at or near end of month

	1981	1982	1983	1984			1985		Current	
	Dec	Dec	Dec	Oct	Nov	Dec	Jan	Feb	Mar 29 1985	effective since
United States	12.00	8.50	8.50	9.00	8.50	8.00	8.00	8.00	8.00	Dec 24, 84
Canada	14.66	10.05	9.96	11.71	10.75	10.16	9.75	10.95	10.40	Mar 28, 85
Austria	6.75	4.75	3.75	4.50	4.50	4.50	4.50	4.50	4.50	Jun 28, 84
Belgium	15.00	11.50	10.00	11.00	11.00	11.00	11.00	11.00	11.00	Feb 16, 84
Denmark	11.00	10.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	Oct 27, 83
Finland	9.30	8.50	9.50	9.50	9.50	9.50	9.50	9.00	9.00	Feb 1, 85
France	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	Aug 31, 77
Germany	7.50	5.00	4.00	4.50	4.50	4.50	4.50	4.50	4.50	Jun 29, 84
Ireland	17.15	14.35	11.50	13.00	14.00	13.75	13.75	13.75	13.75	Dec, 84
Italy	19.00	18.00	17.00	16.50	16.50	16.50	15.50	15.50	15.50	Jan 4, 85
Netherlands	9.00	5.00	5.00	5.00	5.00	5.00	5.00	5.50	5.50	Feb 1, 85
Norway	9.00	9.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	Jun 6, 83
Portugal	18.00	19.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00	Aug 10, 83
Spain	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	Jul 26, 77
Sweden	11.00	10.00	8.50	9.50	9.50	9.50	9.50	9.50	9.50	Jun 29, 84
Switzerland	6.00	4.50	4.00	4.00	4.00	4.00	4.00	4.00	4.00	Mar 18, 83
United Kingdom	14.37	10.00	9.00	10.38	9.38	9.38	13.75	13.75	12.75	Mar 29, 85
Japan	5.50	5.50	5.00	5.00	5.00	5.00	5.00	5.00	5.00	Oct 22, 83
New Zealand	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	Jul, 81
South Africa	13.50	15.45	18.50	22.25	21.25	21.25	21.85	22.33	22.40	Mar 4, 85
Argentina	98.50	128.54	183.75	221.31	221.31	221.31	231.89	231.89	231.89	Jan 16, 85
Korea	10.50	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	Mar 29, 82
Philippines	6.69	6.30	8.05	10.93	11.06	12.11	n.a.	n.a.	12.11	Dec, 84
Singapore	9.50	7.00	7.00	7.00	6.75	6.75	6.50	6.50	6.50	Jan 2, 85
Thailand	14.50	12.50	13.00	13.00	12.00	12.00	12.00	12.00	12.00	Nov, 84
Venezuela	14.00	13.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	May 18, 83

Day-to-day money rates

monthly averages

	1981	1982	1983	1984						1985	
	Dec	Dec	Dec	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
United States	12.37	8.95	9.47	11.23	11.64	11.30	9.99	9.43	8.38	8.37	8.51
Canada	14.53	10.63	8.78	11.41	12.25	12.13	11.95	11.22	10.50	9.75	9.88
Austria	7.50	6.00	5.75	6.50	6.63	6.63	6.75	7.25	7.63	6.75	6.50
Belgium	12.78	9.43	8.65	10.22	10.72	8.79	9.57	10.24	9.02	9.60	9.37
Finland	11.30	11.50	16.70	16.53	16.50	16.10	15.75	15.48	15.07	14.57	14.18
France	15.46	12.88	12.27	11.45	11.43	11.36	11.04	11.18	10.95	10.56	10.64
Germany	10.65	6.07	5.60	5.57	5.53	5.56	5.61	5.52	5.55	5.54	5.79
Ireland	16.88	14.54	12.19	12.00	11.88	12.38	13.50	14.25	14.50	14.88	n.a.
Italy	20.63	19.00	17.88	16.75	16.63	17.34	17.38	17.25	17.25	16.06	16.00
Netherlands	10.67	5.31	5.84	5.98	5.85	5.84	5.90	5.57	5.60	5.78	5.75
Norway	18.60	11.00	13.00	12.00	12.50	13.00	13.00	13.00	13.00	12.50	12.75
Spain	18.73	20.30	16.41	11.15	12.69	12.51	10.83	12.99	12.18	11.43	12.16
Sweden	13.82	8.63	11.48	12.95	13.50	13.50	12.50	10.95	12.15	10.49	13.50
Switzerland	3.38	1.25	1.88	2.88	2.00	2.50	2.00	1.50	1.50	2.63	1.75
United Kingdom	9.13	6.70	7.78	8.63	10.58	7.28	7.38	7.55	6.31	7.38	11.94
Australia	12.84	11.04	4.56	11.34	10.94	10.56	10.61	10.92	10.88	10.89	11.14
Japan	6.70	6.92	6.44	6.03	6.11	6.32	6.15	6.10	6.41	6.17	6.16
South Africa	12.75	14.15	16.06	18.06	20.30	22.63	21.50	21.50	21.13	22.19	21.56
Argentina	84.93	155.32	178.30	194.56	194.56	194.56	215.99	215.99	215.99	226.61	226.61
Brazil	103.74	150.42	184.69	283.79	242.73	285.03	328.87	244.59	272.02	n.a.	n.a.
Hong Kong	10.75	9.13	13.90	23.40	11.30	11.99	8.47	7.23	6.80	6.94	6.18
Korea	14.40	13.84	11.40	11.70	11.70	11.20	11.30	10.90	10.00	8.90	9.30
Philippines	14.70	16.12	31.18	39.79	29.13	34.29	40.09	32.17	15.22	23.15	n.a.
Singapore	3.96	11.45	7.05	7.67	8.05	8.16	7.54	6.29	6.01	5.40	6.07

Treasury bill rates

bond equivalent yields, at or near end of month

	1981	1982	1983	1984						1985	
	Dec	Dec	Dec	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
United States	11.90	8.15	9.28	10.67	11.06	10.64	9.69	8.71	7.99	7.88	8.87
Canada	14.41	9.80	9.71	12.73	12.13	12.02	11.46	10.50	9.84	9.50	11.27
Belgium	16.00	12.25	10.85	11.75	11.50	11.00	11.00	10.75	10.75	10.70	10.70
Ireland	17.35	14.70	11.63	13.23	12.81	12.71	12.90	14.80	15.10	14.07	n.a.
Italy	21.36	19.11	16.95	14.99	14.99	15.40	15.30	14.90	14.69	13.75	n.a.
Netherlands	9.75	5.63	5.63	5.75	5.75	5.50	5.63	5.63	5.88	6.31	6.51
Spain	n.a.	15.28	14.46	10.30	9.44	8.91	n.a.	n.a.	n.a.	n.a.	n.a.
Sweden	n.a.	12.90	11.75	14.12	14.06	13.80	11.83	12.04	11.83	13.53	14.28
United Kingdom	15.31	9.90	9.08	11.77	10.22	10.39	10.06	9.34	9.37	12.50	14.04
Australia	13.27	9.39	8.54	10.60	9.74	9.60	10.75	10.98	12.27	12.22	13.51
Japan	5.42	5.42	4.91	4.91	4.91	4.91	4.91	4.91	4.91	4.91	4.91
New Zealand	11.25	11.25	7.80	7.80	7.80	7.80	13.50	13.50	13.50	17.50	17.45
South Africa	14.55	14.62	18.43	19.69	23.02	23.02	23.03	21.82	21.94	23.05	23.01
Brazil	92.62	115.40	179.15	179.15	179.15	269.00	273.03	273.03	273.03	n.a.	n.a.
Mexico	33.23	57.44	53.78	50.31	50.13	48.36	47.88	47.10	47.71	n.a.	n.a.
Philippines	13.22	14.54	15.99	33.34	37.51	42.56	46.30	48.67	47.14	35.69	n.a.
Singapore	3.03	2.74	2.59	3.00	3.01	3.01	3.01	2.85	2.82	2.93	2.93

Representative money market rates

bond-equivalent yields on major short-term (mostly 3-4 month) money market instruments other than Treasury bills, at or near end of month

	1981	1982	1983	1984						1985	
	Dec	Dec	Dec	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
United States	12.78	8.81	9.75	11.36	11.56	10.94	9.59	8.84	8.22	8.06	9.05
Canada	15.25	9.95	9.87	13.05	12.30	12.25	11.80	10.80	10.10	9.65	11.80
Belgium	16.00	12.35	11.00	11.90	11.50	11.00	11.00	10.75	10.70	10.75	10.70
France	15.25	12.75	12.19	11.63	11.18	10.94	10.18	10.56	10.69	10.31	10.69
Germany	10.50	6.20	6.30	6.05	5.90	6.05	6.05	5.80	5.75	5.85	6.25
Ireland	18.50	15.75	12.19	13.75	13.25	13.06	13.75	15.38	15.13	14.63	n.a.
Italy	21.00	19.00	17.88	16.63	16.63	17.25	17.25	17.25	17.25	16.00	16.13
Netherlands	11.00	5.25	6.00	6.44	6.38	6.19	6.06	5.94	5.75	6.50	7.19
Portugal	13.80	15.05	24.11	24.65	24.53	24.60	24.52	24.51	24.57	24.57	24.53
Spain	15.52	16.55	18.48	12.91	13.19	12.86	12.54	12.95	12.13	12.27	12.22
Switzerland	10.12	3.88	3.88	4.88	5.38	5.38	5.25	5.00	5.00	5.63	6.13
United Kingdom	15.69	10.50	9.31	12.31	10.69	10.69	10.88	9.69	9.88	12.50	13.88
Australia	16.00	10.65	9.50	12.50	11.10	11.30	11.30	11.75	12.50	13.55	14.60
Japan	6.30	6.80	6.42	6.33	6.32	6.32	6.30	6.30	6.29	6.26	6.32
New Zealand	16.05	16.75	12.10	16.50	15.25	16.75	16.25	15.25	15.25	18.75	22.75
South Africa	15.47	15.26	19.12	20.78	23.39	23.56	23.56	22.11	22.78	24.07	24.12
Chile	34.54	71.44	22.42	19.56	18.16	39.29	52.87	56.45	22.42	22.42	34.49
Hong Kong	14.18	10.13	12.84	17.06	12.83	12.78	10.13	8.78	8.26	7.85	7.64
Indonesia	14.48	18.50	19.50	21.00	21.00	21.00	20.00	19.00	19.00	19.00	20.50
Korea	15.69	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
Malaysia	9.50	8.50	9.80	10.20	10.50	10.30	15.00	10.00	10.30	9.50	9.30
Philippines	17.70	15.96	15.61	19.55	27.32	19.54	31.23	38.67	33.21	29.38	n.a.
Singapore	7.81	8.69	8.44	9.06	9.03	8.81	7.38	6.69	7.00	6.03	6.44
Taiwan	10.94	9.94	7.65	7.27	6.62	7.27	5.17	6.17	8.07	6.78	9.14
Thailand	14.29	12.25	16.00	13.50	13.50	14.50	14.00	12.00	12.00	14.00	17.75

Commercial bank deposit rates

at or near end of month

	1981	1982	1983	1984						1985	
	Dec	Dec	Dec	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
United States	12.62	8.25	9.70	11.38	11.58	10.95	9.95	8.85	8.35	8.06	9.22
Canada	15.20	9.85	9.82	13.00	12.25	12.20	11.75	10.75	10.05	9.60	11.75
Austria	9.63	6.25	6.50	6.88	6.94	7.06	7.38	7.63	7.50	6.94	6.88
Belgium	15.50	12.25	11.25	11.63	11.25	10.88	10.75	10.63	10.63	10.75	10.87
Denmark	10.00	9.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Finland	5.00	4.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	4.75
France	9.16	8.24	7.66	7.50	7.30	7.30	7.08	7.14	7.04	6.85	6.90
Germany	9.50	6.00	5.90	5.55	5.40	5.30	5.40	5.30	5.25	5.35	7.75
Ireland	18.38	15.25	11.75	13.13	12.75	12.75	13.25	14.75	14.63	14.25	n.a.
Italy	13.25	13.25	13.25	11.64	11.64	11.64	11.64	11.64	11.64	11.00	11.00
Netherlands	11.00	5.38	6.13	6.31	6.13	6.13	6.00	5.81	5.69	6.38	7.06
Norway	12.75	13.50	12.75	12.25	12.25	12.75	12.75	12.75	12.75	12.25	13.00
Portugal	14.00	15.00	21.50	28.00	28.00	28.00	28.00	28.00	27.00	27.00	27.00
Spain	11.78	12.53	12.62	12.50	12.38	12.18	11.76	11.67	11.64	11.34	11.02
Sweden	12.65	12.15	11.70	13.70	13.55	13.45	11.50	11.50	11.45	12.10	13.65
Switzerland	8.75	3.00	3.50	4.25	4.88	4.88	4.75	4.63	4.50	5.00	5.75
United Kingdom	15.69	10.31	9.31	12.25	10.59	10.63	10.44	9.75	9.88	13.13	13.75
Australia	15.65	10.20	10.40	12.28	10.85	10.68	11.22	11.46	12.75	13.78	13.82
Japan	6.50	7.00	6.50	6.47	6.46	6.42	6.42	6.43	6.38	6.42	6.50
New Zealand	15.50	16.50	11.50	15.00	15.50	15.25	15.00	15.50	15.25	17.00	18.75
South Africa	14.75	15.25	20.13	20.50	23.25	23.50	23.58	22.00	22.88	24.13	23.75
Argentina	86.76	103.42	176.41	188.58	188.58	270.00	320.00	285.00	380.00	285.00	280.00
Brazil	110.05	21.00	23.00	20.00	21.00	27.00	26.00	26.50	27.00	n.a.	n.a.
Chile	36.87	57.72	22.28	19.56	18.16	15.39	58.81	66.31	22.42	21.84	34.33
Hong Kong	12.50	7.50	9.00	12.50	9.50	9.50	8.00	7.50	7.00	5.50	5.50
Korea	14.40	7.60	7.60	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Malaysia	10.00	8.40	7.75	8.88	8.95	9.37	10.08	10.02	9.58	9.50	9.50
Mexico	31.82	52.54	54.70	49.00	48.35	46.45	44.90	44.90	44.90	n.a.	n.a.
Philippines	13.35	14.10	14.96	19.92	20.63	23.36	29.37	32.47	31.01	27.07	n.a.
Singapore	7.50	8.25	7.44	8.19	8.19	8.19	7.01	6.19	6.13	5.44	6.01
Taiwan	10.75	7.50	7.00	6.75	6.75	6.75	6.75	6.50	6.50	6.50	6.50
Thailand	10.00	10.00	10.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00
Venezuela	14.75	15.50	12.00	12.50	12.50	12.00	13.00	13.00	12.50	12.00	13.00

Domestic government bond yields

long-term issues, at or near end of month

	1981	1982	1983	1984						1985	
	Dec	Dec	Dec	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
United States	14.33	10.61	12.00	12.97	12.69	12.32	11.86	11.64	11.61	11.28	12.09
Canada	15.27	11.69	12.02	13.41	12.89	12.63	12.18	11.81	11.66	11.38	12.30
Austria	10.37	8.81	8.02	8.09	8.10	8.09	8.10	8.07	8.04	8.00	8.00
Belgium	13.99	12.66	11.89	12.05	11.82	11.85	11.74	11.47	11.56	11.56	11.58
Denmark	20.91	20.14	12.96	15.33	15.17	15.30	14.63	14.92	14.60	13.66	13.74
Finland	10.98	10.64	11.16	11.35	10.83	10.87	10.85	10.84	10.73	10.84	10.91
France	16.44	15.40	13.96	13.91	13.58	13.05	12.02	12.36	12.70	12.12	12.25
Germany	9.71	7.90	8.38	8.27	7.97	7.83	7.53	7.20	7.17	7.35	7.71
Ireland	18.28	14.54	14.25	14.89	14.95	14.98	14.99	15.25	14.90	n.a.	n.a.
Italy	21.39	19.70	17.69	15.12	15.22	15.58	15.32	15.23	14.52	13.22	n.a.
Netherlands	11.28	8.16	8.58	8.69	8.50	8.26	7.94	7.65	7.72	7.42	7.93
Norway	12.37	13.32	12.50	12.00	12.00	12.00	12.00	12.00	12.00	12.50	12.00
Portugal	17.39	16.63	22.11	21.19	20.69	21.05	20.84	21.21	22.23	n.a.	n.a.
Spain	16.20	15.92	18.71	17.66	17.14	16.66	15.86	n.a.	n.a.	n.a.	n.a.
Sweden	12.80	13.01	12.30	14.19	13.70	12.98	12.34	12.16	12.04	12.39	13.23
Switzerland	5.40	4.22	4.54	4.66	4.58	4.81	4.89	4.77	4.78	4.74	4.91
United Kingdom	15.02	10.62	9.94	11.17	10.43	10.18	10.19	9.96	10.25	10.65	10.56
Australia	15.00	13.00	13.65	13.30	13.10	13.50	13.30	13.30	13.40	13.12	13.70
Japan	8.11	7.96	7.45	7.47	7.45	7.37	7.11	6.61	6.36	6.37	7.19
New Zealand	12.55	12.84	10.50	10.25	15.03	15.31	16.65	16.60	16.60	16.85	17.45
South Africa	13.33	11.31	13.64	15.43	16.04	16.44	16.80	15.90	16.55	17.25	17.85
Philippines	13.01	13.64	14.47	12.19	20.59	38.67	27.31	34.77	18.54	21.15	n.a.
Venezuela	12.50	15.00	13.50	14.00	14.50	14.00	14.50	14.50	14.00	13.00	13.50

Commercial bank lending rates to prime borrowers

at or near end of month

	1981	1982	1983	1984						1985	
	Dec	Dec	Dec	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
United States	15.75	11.50	11.00	13.00	13.00	12.75	12.00	11.25	10.75	10.50	10.50
Canada	16.50	12.50	11.00	13.50	13.00	13.00	12.50	12.00	11.25	11.00	11.50
Austria	13.50	11.75	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25
Belgium	18.00	15.50	13.75	14.75	14.25	14.25	14.00	14.00	14.00	14.00	14.00
Denmark	15.00	14.00	10.00	10.00	10 00	10.00	10.00	10.50	10 50	10.50	10.50
Finland	9.84	8.95	10.18	10.48	10.49	10.54	10.52	10.60	10.63	10.69	n.a.
France	14.00	12.25	12.25	12.25	12.00	12.00	12.00	12.00	11.50	11.50	11.50
Germany	13.00	8.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75
Ireland	17.25	16.50	13.75	13.75	13.75	13.75	13.75	13.75	15.75	15.75	n.a.
Italy	22.50	20.75	18.75	17.00	17.00	18.00	18.00	18.00	18.00	17.00	17.00
Netherlands	12.00	6.25	7.00	6.75	6.75	6.50	6.50	6.50	6.25	6.75	7.75
Norway	13.75	14.50	13.50	12.75	12.50	13.00	13.25	13.00	13.00	11.50	12.88
Portugal	20.50	23.50	30.00	29.00	29.00	29.00	29.00	29.00	29.00	29.00	29.00
Spain	17.04	19.00	20.85	15.49	15.27	14.36	14.11	14.29	13.68	13.73	13.71
Sweden	15.00	15.00	13.50	14.50	14.50	14.50	14.50	14.50	14.50	14.50	14.50
Switzerland	8.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
United Kingdom	14.50	10.00	9.00	12.00	10.50	10.50	10.50	9.50	9.50	14.00	14.00
Australia	15.75	15.00	12.75	14.50	14.00	13.00	13.00	13.00	13.50	14.25	14.75
Japan	6.95	6.28	5.89	5.72	5.72	5 72	5.71	5.71	5.70	5.70	5.70
New Zealand	13.00	13.00	11.00	11.00	12.50	12.50	13.50	14.00	14.00	14.00	15.00
South Africa	17.00	18.00	20.00	22.00	25.00	25.00	25.00	23.50	24.00	25.00	25.00
Argentina	92.60	109.50	188.58	206.83	206.83	280.00	330.00	295.00	390.00	295.00	290.00
Brazil	152.40	23.81	24.00	22.50	23.50	32.00	30.00	30.50	31.00	n.a.	n.a.
Chile	61.43	85.19	35.11	32.30	30.38	35.58	78.75	95.33	79.56	58.04	58.40
Hong Kong	16.00	10.50	13.50	17.00	14.00	14.00	12.00	11.50	11.00	11.00	10.00
Indonesia	19.25	22.00	19.75	21.25	22.75	31.50	26.00	23.50	23.50	22.50	22.50
Korea	16.50	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Malaysia	12.00	12.50	11.00	11.50	11.50	11.50	12.00	12.00	12.00	12 00	12.00
Mexico	31.81	46.12	56.44	50.69	50.93	50.60	49.34	48.31	47.54	47.17	n.a.
Philippines	18.00	18.00	18.00	24.00	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Singapore	11.83	9.33	8.98	10.10	10.10	10.33	10.33	9.88	9.40	9.08	9.03
Taiwan	15.25	10.75	10.25	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Thailand	17.00	16.00	16.00	17.00	17.00	17.00	17.00	16.50	16.50	16.50	16.50
Venezuela	15.50	17.00	16.00	15.50	16.00	15.00	15.00	16.00	16.00	15.00	15.00

Domestic corporate bond yields

long-term issues, at or near end of month

	1981	1982	1983	1984						1985	
	Dec	Dec	Dec	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
United States	15.50	11.75	12.63	13.38	13.20	12.88	12.63	12.37	12.25	12.00	13.00
Canada	16.18	12.74	12.89	13.91	13.39	13.33	12.90	12.62	12.42	12.08	12.95
France	17.33	15.91	14.06	13.77	13.77	13.77	12.84	12.58	12.14	12.40	12.16
Germany	10.50	8.20	8.30	8.00	7.90	7.70	7.60	7.30	7.20	7.20	7.20
Netherlands	11.03	7.80	8.51	8.49	8.42	8.21	7.77	7.61	7.51	7.33	8.00
Norway	13.36	14.13	13.25	12.75	12.75	12.75	12.75	12.75	12.75	12.75	12.75
Spain	14.76	17.10	19.84	21.47	21.78	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Sweden	12.94	13.37	12.21	12.73	12.78	13.18	13.19	13.21	12 33	12.34	12.67
Switzerland	6.60	4.87	4.94	5.10	5.16	5.12	5.14	5.18	5.20	5.16	5.25
United Kingdom	16.55	12.34	11.57	13.06	12.15	11.74	11.79	11.45	11.64	12.06	11.98
Australia	16 50	15.00	13.50	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Japan	7.70	7.55	7.09	7.09	7.06	6.98	6.99	6.51	6.21	6.46	6.98
Korea	26.90	16.00	14.20	14.00	14.50	14.60	14.60	14.90	15.00	14.70	14.70
Venezuela	17.00	18.00	18.00	18.00	18.50	18.00	19.00	18.00	18.00	18.00	18.00

Key to data in tables

I. International markets

Data on the *international banking market size* are based on resident and nonresident Eurocurrency (i.e., foreign currency) assets and liabilities and on nonresident domestic currency assets and liabilities of banks in nearly all European countries, the Bahamas, Bahrain, Canada, Cayman Islands, Hong Kong, Japan, Netherlands Antilles, Panama, Singapore, and the United States. All assets and liabilities of international banking facilities (IBFs) of banks in the United States are treated as Eurocurrencies.

An *international bond issue* may be either a Eurobond issue or a foreign bond issue. A *Eurobond issue* is one placed principally in countries other than that of the currency in which the bond is denominated, usually through an international syndicate. A *foreign bond issue* is one issued by a nonresident borrower on the market of a single country and denominated in that country's currency. Data on new international bond issue volume include all publicly announced issues of straight bonds, convertibles, bonds with warrants, floating rate notes, and certificates of deposit with an original maturity of three years or more (one year or more beginning in 1985), whether publicly or privately placed.

An *international bank credit* may be either a Eurocurrency credit or a foreign credit. A *Eurocurrency credit* is one denominated in a currency that is foreign to the country of the bank office extending the credit. *A foreign credit* is one extended to a nonresident borrower and denominated in the domestic currency of the country in which the bank office extending the credit is located. Data on new international bank credit volume include all publicly announced bank credits with an original maturity of one year or more (term loans, revolving lines of credit, and facilities to back up the issuance of other financial instruments such as commercial paper, short-term notes, certificates of deposit and banker's acceptances).

Data on international bond issues and bank credits through 1984 were compiled by Morgan Guaranty Trust Company. Beginning in January 1985 these data are based on figures published in the OECD's *Financial Statistics Monthly.*

II. Domestic markets

Day-to-day money rates

Argentina—7-day interbank money regulated by the Central Bank.

Austria — day-to-day interbank rate.

Australia — approximate effective interest rate in the authorized short-term money market.

Belgium — interbank call money.

Brazil — interbank overnight money.

Canada — chartered banks' day-to-day loans.

Finland — Bank of Finland call money.

France — interbank call money against private paper.

Germany — interbank call money.

Hong Kong — interbank 24-hour call rate.

Ireland — interbank call money.

Italy — interbank 48 hour call money.

Japan — Tokyo interbank call money, unconditional lenders rate.

Korea — call money.

Netherlands — open-market call money.

Norway — day-to-day interbank rate.

Philippines — interbank call loan rate.

Singapore — interbank overnight money.

South Africa — discount houses basic call rate.

Spain — day-to-day interbank rate.

Sweden — interbank call money.

Switzerland — call money.

United Kingdom — call money.

United States — effective Federal funds rate.

Treasury bill rates

Australia — new issues of 13-week Treasury notes.

Belgium — 3-month Treasury certificates.

Brazil — 3-month Treasury bills.

Canada — 3-month Treasury bills at tender.

Ireland — 3-month Central Bank Exchequer bills.

Italy — 6-month Treasury bills.

Japan — 60- to 62-day noninterest-bearing discount government bills.

Mexico — 3-month Federal Treasury bills.

Netherlands — 3-month Treasury bills.

New Zealand — 3-month Treasury bills.

Philippines — simple average of 91-day Treasury bills at tender until June 1984. Beginning July 1984 rates refer to the weighted average interest rate on 91- to 183-day Treasury bills sold to banks under negotiated basis.

Singapore — 91-day Treasury bills at tender.

South Africa — 3-month Treasury bills at tender.

Spain — Bank of Spain 3-month certificates of deposit used for monetary correction until March 1982. New series as of April 1982, 6-month Treasury bills.

Sweden — new issues of 3-month Treasury bills until June 1982. New series as of July 1982, 6-month Treasury discount notes, market rate.

United Kingdom — 91-day Treasury bills at tender.

United States — 3-month Treasury bills.

Representative money-market rates

Australia — 3-month prime finance company paper.

Belgium — 4-month Fonds des Rentes certificates.

Canada — 3-month prime finance company paper.

Chile — 60-day Central Bank promissory notes (PDBC).

France — 3-month interbank money against private paper.

Germany — 3-month interbank deposits.

Hong Kong — 3-month interbank deposits.

Indonesia — 1-month interbank deposits.

Ireland — 3-month interbank deposits.

Italy — 3-month interbank deposits.

Japan — 3-month repurchase agreements.

Korea — 3-month financial bill.

Malaysia — 3-month interbank deposits.

Netherlands — 3-month interbank deposits.

New Zealand — 90-day commercial bills.

Philippines — weighted average interest rate for 90-day promissory rates.

Portugal — average of 30- to 90-day interbank deposits.

Singapore — 3-month bank acceptances.

South Africa — 90-day bank acceptances.

Spain — 1-month interbank deposits.

Switzerland — 3-month interbank deposits.

Taiwan — interbank call money.

Thailand — interbank call money.

United Kingdom — 3-month interbank deposits.

United States — 3-month prime industrial paper.

Commercial bank deposit rates

Argentina — nominal 30-day time deposits. Average of bank rates published by the Central Bank until August 1984. New series as of September 1984, 30-day acceptances maximum interest rate.

Austria — 3-month time deposits.

Australia — 3-month certificates of deposit.

Belgium — special maximum rate for 3-month time deposits in large amounts.

Brazil — 6-month certificates of deposit with prefixed yields until July 1982. New series as of August 1982, 6-month certificates of deposit reported as a spread above monetary correction which is set every month in relationship to inflation.

Canada — 3-month time deposits.

Chile — 30-day time deposits.

Denmark — time deposits of 3-months' notice.

Finland — time deposits of six-month notice.

France — 3-month time deposits of FF. 1,000,000.

Germany — 3-month time deposits in large amounts.

Hong Kong — 3-month certificates of deposit. Rate set by the Hong Kong Association of Banks.

Ireland — 3-month time deposits.

Italy — 3-month time deposits of Lit. 100 million or more.

Japan — 90-day negotiable certificates of deposit issued by the Tokyo office of Morgan Guaranty Trust Company.

Korea — 3-month time deposits.

Malaysia — 3-month time deposits.

Mexico — 3-month certificates of deposit issued by financieras to corporations for amounts over Ps. 1 million. Higher rates available to individuals.

Netherlands — 3-month time deposits in large amounts.

New Zealand — 6-month transferable certificates of deposit.

Norway — 3-month special term deposits.

Philippines — administrative ceiling on 90-day time deposits until June 1981; ceilings on time deposits with maturity of 730-days and below were lifted from July 1981 to September 1981; new series as of October 1981, weighted average interest rate on 60- to 90-day time deposits of sample commercial banks.

Portugal—90- to 180-day time deposits until May 1984. New series as of June 1984, 180-day to one-year time deposits.

Singapore — 3-month certificates of deposit.

South Africa — negotiable certificates of deposit.

Key to data in tables — continued

Spain — maximum legal rate for 3-month deposits until May 1981. New series as of June 1981, deposits over 6-months and less than 1-year for Pts. 1 million or more reported by the Bank of Spain.

Sweden — 3-month certificates of deposit.

Switzerland — 3-month time deposits.

Taiwan — 3-month time deposits.

Thailand — 3-month time deposits.

United Kingdom — 3-month time deposits.

United States — 3-month negotiable certificates of deposit issued by Morgan Guaranty Trust Company.

Venezuela — 6-month negotiable certificates of deposits for domestic depositors only.

Domestic government bond yields

Austria — Austrian National Bank average yield on all outstanding government bonds.

Australia — 20-year government bonds.

Belgium — Belgian National Bank average yield on government bonds maturing in more than five years.

Canada — Bank of Canada average yield on all direct government bonds due or callable in 10 years or more.

Denmark — 12% serial bonds maturing 2001 until April 1983. New series as of May 1983, 10% serial bonds maturing 2004.

Finland — rate of interest at issue on central government bonds intended for public subscription, weighted by sales of bonds in the latter half of each month.

France — Institut National de la Statistique et des Etudes Economiques (INSEE) yield on public and semi-public sector bonds.

Germany — Frankfurter Allgemeine Zeitung (FAZ) 7% public authority bond average until September 1978. New series as of October 1978, FAZ 10-year public authority bond average.

Ireland — 15-year government bonds.

Italy — average yield on fixed-interest government bonds, not including irredeemable bonds, weighted by the amounts in circulation, for maturities of 9-years or more.

Japan — secondary market yield for the 6.1% due 1988 national government bond until December 1979. New series as of January 1980, average yield of national government bonds for maturities of 10-years or more.

Netherlands — Central Bureau of Statistics (CBS) average yield on three latest government bonds.

New Zealand — average yield on government bonds maturing after 10 years.

Norway — 5% government bond of 1996 until December 1982. New series as of January 1983, average yield of long-term government bonds.

Philippines — weighted average interest rate of outright sales on secondary transactions for Central Bank certificates of indebtedness.

Portugal — yield of 4% Centenary Loan of 1940.

South Africa — 25-year government bonds until August 1983; 20-year Republic of South Africa bonds until April 1984; new series as of May 1984, secondary market yield for the 13% due 2005 Republic of South Africa bond.

Spain — weighted average of yields of several central government issues with original maturity of less than five years.

Sweden — 15-year government bonds until October 1983. New series as of November 1983, 5-year government bond yield index, market rate.

Switzerland — Swiss Confederation bond average.

United Kingdom — F.T. (Financial Times) Actuaries 25-year government stock.

United States — Morgan Guaranty 20-year U.S. Government Bond Index.

Venezuela — Banco Central average yield on public-sector bond issues.

Commercial bank lending rates to prime borrowers

Argentina — average rate on 30-day loans.

Austria — overdraft rate for prime borrowers, including commission.

Australia — approximate overdraft rate for prime borrowers.

Belgium — prime overdraft rate.

Brazil — prefixed rate applied to working capital loans until July 1982; monetary-corrected free rate applied to working capital loans from August 1982 to July 1983. New series as of August 1983, maximum legal rate reported as a spread above monetary correction which is set every month in relationship to inflation. Charges for fees and commissions are often added.

Canada — prime rate.

Chile — average prime rate of six major commercial banks.

Denmark — approximate rate for loans and advances to prime borrowers.

Finland — average rates on total commercial bank lending.

France — base lending rate, excluding a commission of .05% per month on highest debit balance during the month. A spread above base rate is often added.

Germany — approximate effective overdraft rate for prime borrowers.

Hong Kong — prime rate.

Indonesia — prime rate for domestic affiliates of foreign companies.

Ireland — AA corporate borrowing rate.

Italy — unsecured overdraft rate for prime borrowers.

Japan — average contracted interest rate for short-term loans of city banks. In addition, compensating balances may be required.

Korea — prime rate.

Malaysia — Bank of Commerce Berhad base lending rate.

Mexico — base rate or average cost of money for banks determined monthly by the Banco de Mexico S.A.

Netherlands — overdraft rate for prime borrowers, including commission.

New Zealand — overdraft rate for prime borrowers.

Norway — overdraft rate, including a commission of .25% per quarter on the total line of credit until January 1983. New series as of February 1983, special rate of first class, large borrowers.

Philippines — prescribed administrative ceiling for unsecured loans with maturities of 365 days and below, including charges until December 1982. New series as of January 1983, modal rate to prime borrowers.

Portugal — maximum rate for 90- to 180-day loans.

Singapore — most common overdraft rate, major banks.

South Africa — unsecured overdraft rate for prime borrowers.

Spain — preferential rate for 1-month loans calculated by the Bank of Spain.

Sweden — overdraft rate for prime industrial borrowers, commission not included.

Switzerland — unsecured overdraft rate for prime borrowers, excluding commission of .25% per quarter on average or highest outstanding debit balance in quarter.

Taiwan — maximum rate for 3- to 12-month secured loans. Rate is an indication only and may vary from actual bank lending rate which is subject to volatile interbank rates.

Thailand — prime rate.

United Kingdom — clearing bank base lending rate. A spread above base rate is often added.

United States — prime rate of Morgan Guaranty Trust Company.

Venezuela — representative rate for domestic prime borrowers only.

Domestic corporate bond yields

Australia — new issue yields for AA corporate bonds having a maturity of 5- to 7-years.

Canada — McLeod, Young, Weir Co. Ltd., weighted long-term bond yield index for AA corporates.

France — INSEE tax-adjusted average yield on outstanding private corporate bonds.

Germany — Bundesbank average yield on industrial bonds.

Japan — secondary market yield for NTT bond maturing March 1987.

Korea — average of yields on 3-year corporate bonds guaranteed by local banks.

Netherlands — CBS average yield on three 6% to 6.5% corporate bonds until December 1981. New series as of January 1982, yield of domestic long-term bonds issued by major banks.

Norway — 5.75% Dalen Portland-Cement bond of 1969-1984 until December 1982. New series as of January 1983 average yield of long-term industrial bonds.

Spain — average yield for a selected group of electricity companies.

Sweden — Central Satistical Bureau average yield on industrial bonds.

Switzerland — average yield on outstanding bonds of four leading Swiss companies. Mixture changed as of January 1982.

United Kingdom — F.T. (Financial Times) Actuaries 20-year debentures and loans until February 1981. New series as of March 1981, F.T. Actuaries 25-year debentures and loans.

United States — Salomon Brothers index of new issue yields for Aa industrial bonds with five-year call protection.

Venezuela — average of yields on 15-year bond issues of Electricidad de Caracas.

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World Financial Markets

Morgan Guaranty Trust Company of New York

May 1985

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Latin America's trade policies

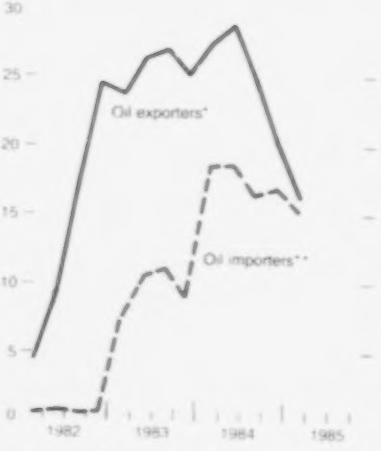
Latin America achieved impressive gains on trade and current accounts during 1983 and 1984. These stemmed from domestic retrenchment that held down imports and an upsurge in industrial-country demand for Latin America's exports. Imports of the eight largest external borrowers were down from pre-debt crisis levels an average 45% in 1983 and were not much higher in 1984 as a whole. Of the increase in their exports to industrial countries since the onset of the debt crisis, the United States accounted for 85% through second-half 1984. More recently, U.S. economic expansion has slowed. Japan and Europe have not taken up the slack. Thus, domestic demand in Europe stagnated this past winter.

Partly as a result, Latin America's trade surpluses — which aggregated $40 billion in 1984 for the eight largest debtors — have now begun to decline. Seasonally adjusted data show that the surpluses actually peaked a full 12 months ago (see Chart 1). All four of the major debtors have shared the shrinkage (see Table 1). Most have managed some recovery of domestic economic activity, in some cases with an attendant pickup in imports. That was to be expected and is quite welcome. Still, export trends are disquieting. Argentina's exports are down 13% from a year ago in dollar terms, Brazil's 6%, and Mexico's 11% (see Table 2). Mexico's non-oil exports alone are down 16%. Venezuela's export earnings also have slid from first-half 1984 levels, and in all probability are headed further downward this year. Should these trends persist, the region's potential new money needs — whether from commercial banks, suppliers, or bilateral and multilateral official agencies — or its reserve usage could well exceed what seemed probable just a few months ago.

Latin America has often blamed its balance of payments troubles on adverse external conditions, especially on high interest rates and on unfavorable prices and low world demand for its exports. External conditions have indeed been difficult in the past, but are far more supportive today. For example, the four-percentage-point decline in LIBOR since last summer — it is now at a seven-year low — affords substantial relief to the current account balances of the debtor countries (see Table 3). Moreover, OECD economic growth, which approached 5% in 1984, should be about 3%

Chart 1

Trade balances of Latin America's major borrowers
billions of dollars, s.a.a.r.
estimated balance of payments basis



*Ecuador, Mexico, Venezuela

**Argentina, Brazil, Chile, Colombia, Peru

Table 1

Trade balances

on an estimated balance of payments basis billions of dollars at seasonally adjusted annual rates

	1981	*1984*	*1985 year to date**
Argentina	0.71	4.30	3.44
Brazil	1.20	13.07	10.50
Chile	—2.68	0.29	0.42
Colombia	—1.54	—0.72	—0.38
Ecuador	0.18	0.91	1.25
Mexico	—4.51	12.80	8.42
Peru	—0.55	0.80	1.09
Venezuela	7.84	8.37	6.82

*Jan-Apr: Brazil
Jan-Mar: Argentina, Chile, Ecuador, Mexico
1984 Nov-1985 Jan: Peru
1984 Oct-Dec: Venezuela
1984 Sep-Nov: Colombia.

Table 2

Export and import growth

on an estimated balance of payments basis percent changes in dollar terms from same period one year earlier

	*1985 year to date**	
	Exports	*Imports*
Argentina	—13.4	11.0
Brazil	—6.0	—0.1
Chile	—5.3	0.8
Colombia	14.5	—12.9
Ecuador	19.6	—11.3
Mexico	—11.1	38.9
Peru	3.3	—24.1
Venezuela	5.4	16.5

*Jan-Apr: Brazil
Jan-Mar: Argentina, Chile, Ecuador, Mexico
1984 Nov-1985 Jan: Peru
1984 Oct-Dec: Venezuela
1984 Sep-Nov: Colombia.

this year, and could hover around the same pace in the years ahead — a fair approximation of the sustained noninflationary growth to which the summit leaders renewed their commitment in Bonn this month. In such a noninflationary environment, no boom in oil or other commodity prices looms on any near-term horizon. Indeed, the price weaknesses they have displayed this past year or so may last for some time to come. For developing countries in general, however, there appears reasonable scope for growth in manufactures exports.

Amid these moderately supportive external conditions, the challenge for Latin America is to strengthen its prospects for economic growth and employment at home by more effectively exploiting the opportunities available in the world marketplace.

Hitherto, Latin America has not done well in an increasingly competitive world. Whereas the main newly industrializing countries (NICs) of Asia have boosted their exports to the crucial U.S. market by 10% during the past 12 months, Latin America's U.S. sales show virtually no increase (see Chart 2).

Evidently, Latin America needs to create efficient and dynamic export sectors, fully competitive in the world market and spanning both traditional and nontraditional products. Success requires profound and long-overdue reforms in Latin America's domestic and trade policies. On the domestic front, the overriding need is to arrest and turn back the drift toward very high inflation (see Table 4). The inflation malady deters investment at home — the foundation of economic progress — and encourages capital flight abroad, a prime cause of the region's financial woes.

As for trade policies, the focus of this article, several countries have allowed their currencies to suffer major erosion of competitiveness in real terms. The region still displays its traditional ambivalence toward the role of external trade and foreign investment in economic development. Trade liberalization is approached with trepidation at best, notwithstanding the evidence that the existing pervasive protection contributes to inflation, perpetuates domestic inefficiency, and penalizes the export sector. Suspicion toward foreign direct investment deters the inflow not only of capital but also of technology and marketing know-how that could make a significant contribution to economic growth.

Yet Latin America's own record shows that outward-oriented trade policies, steadfastly applied, pay off in terms of boosting the region's employment and economic growth. This conclusion is reinforced by Asia's many examples of successful trade policies. The key ingredients are consistently competitive exchange rates that provide profit incentive; macroeconomic policies that curb inflation; and trade liberalization that limits quantitative controls, tariffs, taxes, and subsidies in order to derive the greatest benefit from national comparative advantage. Such market-oriented policies would not be without cost to particular and well-entrenched interest groups in Latin America, but could yield handsome and widespread economic returns for the region, as for other developing nations. The alternative is economic stagnation, still higher inflation, and prolonged financial difficulty.

Economic growth and exports: Latin America and Asia compared

For two decades Latin America's economic growth has lagged well behind that of several developing countries in East and Southeast Asia. The gap widened following the

Table 3

Current account balances

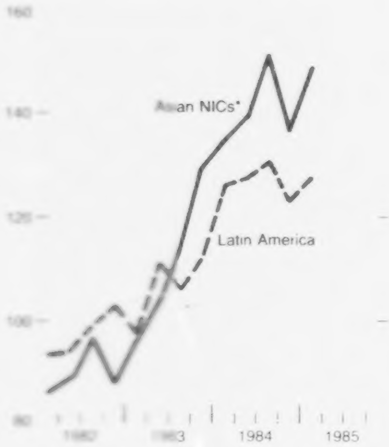
billions of dollars

	1981	1984	1985
Argentina	—4.7	—2.6	—2.5
Brazil	—11.7	0.2	—3.6
Chile	—4.7	—2.1	—1.6
Colombia	—1.9	—2.2	—1.5
Ecuador	—1.0	—0.2	—0.3
Mexico	—12.5	4.0	1.1
Peru	—1.7	—0.3	—0.5
Venezuela	4.0	4.2	2.1

Chart 2

Exports to the United States

billions of dollars, s.a.a.r.



* Hong Kong, Indonesia, Korea, Malaysia, Philippines, Singapore, and Taiwan.

Table 4

Consumer prices

percent changes, annual rates

	1982-83	1984	Latest 3 months vs. previous 3 months
Argentina	302	688	1000
Brazil	145	224	263
Chile	22	23	30
Colombia	20	18	34
Ecuador	38	25	43
Mexico	90	59	82
Peru	96	112	177
Venezuela	7	18	12

first oil shock, when seven of the eight Asian nations shown in Table 5 enjoyed faster output growth than any of the eight Latin American nations.

Why did Latin America fall behind in economic growth? The answer lies principally in political, administrative, and institutional obstacles to performance — mostly homegrown. They are manifest both in enfeebled private sectors and, more conspicuously, in subpar export performance since the first oil shock. Asian export performance has been far superior. Among the eight Asian developing countries, only the Philippines experienced export growth below that in world trade as a whole (see Table 6). By contrast, among major Latin American nations, only Brazil, Ecuador, and Mexico saw export growth exceed the world average and even their records fell well short of the typical Asian achievement. Moreover, the relative success of Ecuador and Mexico stemmed mainly from the development of exportable oil resources.

Latin Americans tend to ascribe the slower growth in their exports and output to three external factors: dependence on particular trade partners; dependence on particular products; and protectionism in industrial-country markets. In fact, Latin America's export patterns are not exceptional. In 1983 the Asian countries sent 63% of their exports to industrial countries, close to the 66% average for the eight Latin American nations (see Table 7). The United States is the most important single market for both groups. For the Asian group, Japan ranks second, whereas Latin America is oriented more toward Europe. Another difference in export patterns concerns intraregional markets: 25% of the exports of the eight Asian nations went to other developing countries in Asia, while 15% of Latin American exports went to other Latin American nations. The intraregional market for Latin America has been less dynamic than that of Asia. Still, the differences in market orientation do little to explain the differences in overall export performance.

The composition of trade may explain somewhat more. For example, in non-oil commodity sectors, the region has been hurt by factors beyond its control. World market demands have grown slowly. Real prices, especially for sugar and copper, remain conspicuously weak when compared with the booms of 1972-74 and 1978-79 (see Chart 3). Strongly downward long-term trends in real prices are more clear-cut for copper, somewhat less so for iron ore and corn. Among other commodities of interest to Latin America, soybeans, wheat, and beef show mild downward price trends in real terms. In several cases price trends reflect not only demand softness — due to slower economic growth, less intensive use in production, or substitution by rival products — but also large expansions of global capacity and production during the second half of the 1970s, partly in response to earlier high prices. Beyond these global trends, Latin America's relative export performance in non-oil commodities has been mixed. Table 8 shows that Latin American producers have lost market share in five of nine principal non-oil commodities during the past decade.

The greater disappointment in Latin American export performance concerns manufactures. These accounted on average for only 16% of total exports for the eight major Latin American nations from 1980 to 1982, compared with 54% of exports for the eight Asian nations (see Table 9). On a global scale, manufactures trade has expanded faster than commodities in recent decades, and with more stable real

Table 5

Real GDP growth

percent per annum

	1964-73	1974-84	1984
Industrial countries	4.9	2.4	4.8
Latin America			
Argentina	4.0	0.8	2.0
Brazil	7.4	4.5	4.5
Chile	2.9	1.7	5.6
Colombia	6.2	3.8	2.5
Ecuador	9.5	4.5	2.2
Mexico	7.4	4.7	3.5
Peru	5.1	1.3	4.7
Venezuela	5.2	2.1	—1.7
Asia			
Hong Kong	8.2*	8.1	9.0
Indonesia	11.8	6.5	4.6
Korea	10.8	7.5	7.5
Malaysia	7.1	7.2	7.3
Philippines	5.3	4.1	—5.5
Singapore	11.9	7.9	8.5
Taiwan	11.0	7.7	10.9
Thailand	7.6	6.6	6.0

*1967-73.

Table 6

Export growth

percent per annum, dollar terms

	1964-73	1974-84	1984
World	14.0	11.9	9.0
Latin America			
Argentina	9.1	8.6	3.7
Brazil	16.0	14.3	23.3
Chile	9.0	10.4	—4.6
Colombia	7.9	10.7	19.9
Ecuador	16.0	14.4	5.3
Mexico	8.8	23.4	7.8
Peru	7.2	9.9	4.4
Venezuela	7.3	11.8	7.8
Asia			
Hong Kong	19.2	16.9	28.1
Indonesia	16.5	19.8	10.8
Korea	43.5	21.6	13.3
Malaysia	10.8	16.6	17.3
Philippines	11.2	9.8	7.9
Singapore	12.4	18.8	10.9
Taiwan	29.4	19.2	20.6
Thailand	13.0	15.2	16.3

prices. Thus, concentration in manufactures gave a boost to Asia's export performance. However, when oil prices boomed during the 1970s, Latin America's greater resources and development of fuel exports (44% of total exports, against 21% for the eight Asian nations) should have been a similar plus.

While the share of manufactures in total Latin American exports increased five percentage points during the 1970s, to reach 16% on average from 1980 to 1982, the increase was due almost entirely to Brazil, where the manufactures share reached 34%. Comparing Asia and Latin America, it can be seen that Asian nations achieved six of the nine highest rates of growth in manufactures exports, in excess of 30% per annum. Malaysia, the Philippines, and Thailand had relatively low shares of manufactures in their total exports at the start of the 1970s. More recently, they have come to derive a greater share of export earnings from manufactures than do most Latin American nations, thanks to more consistent and supportive macroeconomic and exchange rate policies than were pursued in Latin America during that decade. Because their natural resource endowments have similarities to those of Latin America, these three Asian nations provide some guide to what should be possible for Latin America. Indeed, had manufactures exports of the eight Latin American nations grown as quickly as those of these three Asian nations, the proceeds would have added nearly 20% to total merchandise export earnings by 1982.

Protectionism in industrial-country markets is the third frequently cited external explanation for Latin America's poor export performance. Proliferating nontariff barriers are particularly blamed However, only narrow groups of agricultural commodities and manufactures are critically affected. According to a recent IMF study, Argentina's agricultural exports could increase up to 12% in value if industrial countries were to eliminate all tariff and nontariff barriers affecting meat, cereals, and sugar; for Mexico and Brazil the corresponding increases would be less than 3%. If all barriers to trade in textiles, clothing, footwear, and iron and steel also were removed, manufactures export earnings could rise 4% for Argentina and 13% for Mexico. The effect on the value of total exports would be greatest for Argentina. Yet, at only 7%, this would be less than one-quarter of the shortfall of earnings below what Argentina's exports could have been by now had they kept pace with world trade since the first oil shock.

The IMF study found the burden of protection to weigh far more heavily on Asian producers than on Latin America. Indeed, Latin America does not generally exhaust its quota allotments under the Multi-Fiber Agreement covering textiles and clothing. Besides, industrial-country protectionism, even if on the increase, did not inhibit emergence during the 1970s of a second tier of significant LDC exporters: Malaysia, the Philippines, Thailand, and — for a time — Colombia managed to increase manufactures exports rapidly in much the same sectors that several larger Asian and Latin American NICs had penetrated in the 1960s. Furthermore, Korea has continued to rely successfully on export development, depite protectionist barriers. In all, Latin America's weak export performance cannot be blamed on protectionism in industrial-country markets.

Inconstant postwar trade policies

Since external factors fail to account for any great portion of Latin

Table 7

Export orientation in 1983

shares in percent

	Exports of	
	*Eight Latin American countries**	*Eight Asian countries***
Industrial countries	66	63
United States	33	27
Europe	24	13
Japan	6	17
Latin America	15	2
Developing Asia	3	25
Other	16	10
	100	100

*Argentina, Brazil, Chile, Colombia, Ecuador, Mexico, Peru, Venezuela.

**Hong Kong, Indonesia, Korea, Malaysia, Philippines, Singapore, Taiwan, Thailand.

America's disappointing export record, the explanation must be sought in the region's erratic approach to international trade. Prior to World War I, trade and foreign investment were vital to Latin America's development. However, the disruption of trade and capital flows during the war, and again during the 1930s and early 1940s, encouraged local industries beyond those in simple food-processing and construction operations that had sprouted in the nineteenth century behind the natural protection afforded by high shipping costs. These new import-substitution industries, mainly in consumer goods, showed that Latin America did not have to depend exclusively on exports of primary commodities for jobs and income.

Reinforced by pessimistic views of the long-term export outlook for minerals and agriculture, intellectual and policymaking circles came to hold that industrialization, even if dependent on protection, was the means to economic progress. Thus, the postwar normalization of commercial and, eventually, of financial flows in much of the free world did not revive free-trade policies in Latin America. Rather, the late 1940s and 1950s witnessed booming investment in Latin American industries manufacturing consumer durables, intermediate products and, particularly in Brazil, capital goods — all for captive domestic markets. Protection prompted foreign direct investors to establish or expand local operations.

By the early 1960s, the boom petered out. Local markets provided limited scope for additional import substitution. Instead of attempting a renewed opening to world markets, the idea of regional economic integration took hold. Negotiated multilateral reduction of barriers to trade within Latin America, coupled with assured, uniform, and high protection against imports from outside the area, aimed to give each country an opportunity to expand the market for at least one subsector of its industry. Up to a point, regional integration worked as intended: during the 1960s, intra-Latin American trade grew rapidly, particularly among blocks of Central American, Caribbean, and South American countries. Fresh life was breathed into at least a few industries. But the benefits were limited by the more general reluctance of countries to open their doors to regional competitors if their own, higher-cost producers would be driven out of business or suffer reduced profits.

The failure of regional integration to provide strong, lasting incentives to industrial growth and export promotion led virtually every country, sooner or later, to attempt reform of trade policies. There were, to generalize, two types of reform in Latin America: one took place in the second half of the 1960s and another in the second half of the 1970s. In the first, import tariff reductions tended to be substantial but targeted, while export measures were generous but equally selective. The main purpose was to diversify exports away from traditional commodities and semiprocessed goods. In the second, import protection tended to be reduced across the board, while export promotion encompassed traditional as well as nontraditional products. Initially, trade liberalization was intended to improve resource allocation, export performance, and economic growth; later, it was used also for anti-inflation objectives in conjunction with other stabilization policies.

The first type of reform may be illustrated by Brazil's initiatives in 1968-73. To promote exports of manufactures, which accounted for a mere 7% of total exports in 1967, exemptions were granted from many indirect taxes; corporate income taxation was reduced by the share of exports in total sales; a drawback

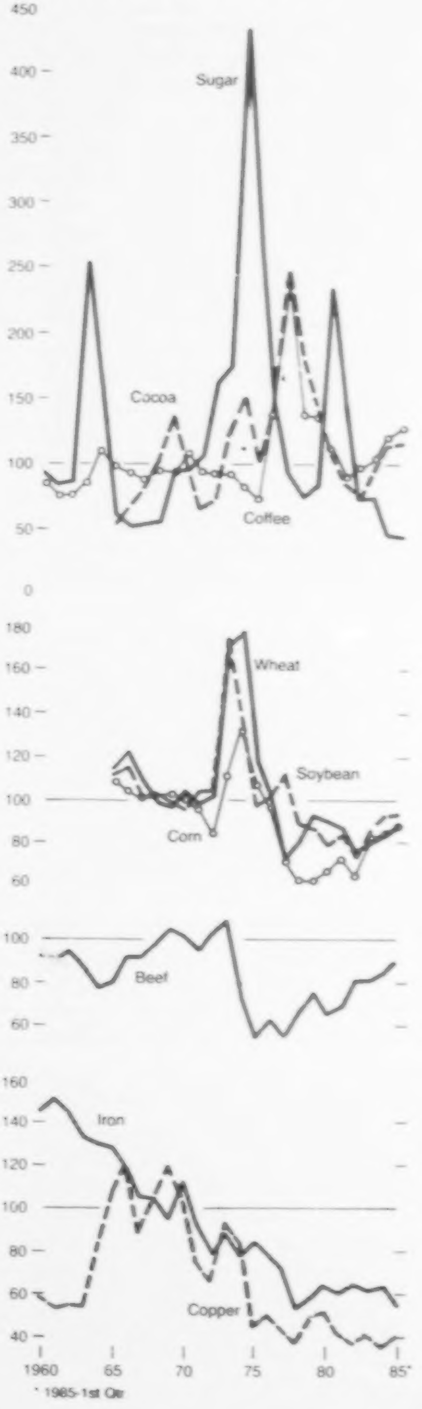
Chart 3

Commodity prices in real terms

nominal prices deflated by manufactures prices in industrial countries

annual averages

index numbers 1969-71 = 100



* 1985-1st Qtr

system was established to waive import duties; nontariff barriers were lifted for companies committing to specific, long-term export targets; and an export tax credit was introduced. Besides tax incentives, exporting companies were given access to concessional credit. Other measures favored processed agricultural exports, such as soybean and cocoa products, and yarn and cloth. Most important, exchange rate policy was supportive: starting in 1968, the currency was devalued frequently in line with domestic inflation. Nevertheless, there was no steady, generalized reduction in tariff and nontariff barriers, nor in the overall anti-export bias facing industry. Incentives for import substitution remained virtually intact.

Colombia promoted nontraditional exports (that is, all exports other than coffee, petroleum, and raw hides) on a coordinated and widespread basis starting in 1967-68. At the time, nontraditional goods were less than one-fourth of total exports. The main new incentives for exporters were tax credits for nontraditional exports, replacing an exemption of export profits from corporate income taxation which had benefited only large companies; a plan that freed exporters from import licensing, advance import deposits, and customs duties; and subsidized credit to be repaid mainly from eventual export proceeds. These measures were accompanied, as in Brazil, by frequent devaluations of the currency, mainly to offset inflation. The structure of protection, designed to substitute for agricultural imports as much as for manufactures imports, was not altered significantly. However, the level of protection was reduced by relaxing nontariff barriers.

Mexico enacted legislation to promote exports of manufactures in early 1971. It introduced federal tax rebates to offset the impact of indirect taxes on production costs; a duty-free import regime for inputs; and wider access to concessional bank credit to finance both export operations and new investments in export-oriented industry. Another initiative formalized the special treatment accorded assembly industries, which had been allowed to operate since the mid-1960s within a 20-kilometer strip along the U.S. border. These plants could import equipment and components duty-free, provided that all of their output was exported. The new legislation broadened their scope by exempting most from the requirement of majority Mexican ownership, and by allowing their establishment virtually anywhere in the country. The reforms, however, were not accompanied by any general reduction of stiff barriers to imports before the late 1970s. Moreover, exchange rate policy was counterproductive because a fixed and overvalued dollar parity was maintained until 1976.

Argentina and Chile provide examples of the second and quite different type of trade policy reforms carried out in the mid-1970s. These reforms sought to stimulate all exports and to reduce existing protection by enough that the availability of imports would help contain domestic price increases of most tradable goods. Argentina already exercised the usual instruments of export promotion, such as import duty drawbacks, refunds of domestic taxes, concessional financing, and preferential procedures for imports used in export production. Argentina's new reforms eliminated or sharply reduced taxes on agricultural exports, while lowering tariff and nontariff import barriers such as prohibitions, advance deposits, and licenses. Accelerated tariff reductions were targeted at industries exhibiting above-average price increases. In Chile, where no export taxes were levied, trade liberaliza-

Table 8

Latin America's share of world exports of major commodities

percent

	1974-78	*1979-83*
Beef	16.9	15.6
Cocoa beans	20.5	18.5
Coffee	55.5	58.1
Copper	25.5	31.4
Corn	10.1	8.5
Crude oil	9.9	13.8
*Iron ore concentrates**	28.9	33.0**
Soybeans	16.9	13.7
Sugar	48.2	44.2
Wheat	4.2	5.5

*Excludes Eastern Europe, the Soviet Union, and China.

**1979-82.

Table 9

Manufactures exports*

data exclude processed metals

	Share of total exports, %		*Growth in dollar values, % per annum*
	1970-72	*1980-82*	
Latin America	11	16	25
Argentina	14	19	20
Brazil	14	34	32
Chile	4	9	23
Colombia	14	23	22
Ecuador	2	3	31
Mexico	32	9	14
Peru	1	15	42
Venezuela	1	1	22
Asia	48	54	27
Hong Kong	93	91	21
Indonesia	2	3	42
Korea	78	81	33
Malaysia	8	20	35
Philippines	7	22	32
Singapore	34	42	30
Taiwan	78	92	28
Thailand	9	25	37

*Standard international trade classification categories 5-8 less subcategories 67 and 68.

tion starting in 1975 reduced and simplified import tariffs, achieving a uniform rate of 10% by mid-1979 except for certain automobiles. In their initial years, while these reforms were being made, frequent devaluations kept the respective currencies quite competitive. Later on, devaluations lagged significantly in Argentina and stopped altogether in Chile. The authorities sought to exploit the potential competitive pressure of large-scale imports to reduce domestic inflation faster than by fiscal, monetary, and wage policies alone.

All these experiments, even those with just partly outward-looking trade policies, were a success at first. Exports in general, and of manufactures in particular, increased rapidly and substantially. Brazil, Colombia, and Mexico, which aimed to diversify, achieved unprecedented gains in manufactures exports: annual average growth rates, measured in constant dollars, reached 39% in Brazil and 35% in Colombia and Mexico (see Table 10). Mexico's export earnings from assembly industries rose even faster. In Argentina and Chile, where overall export growth was the primary goal, manufactures exports nevertheless performed well, increasing by 21% per annum in Argentina and 35% in Chile.

Even though actual liberalization was of limited scope, these and other Latin American experiments with export-oriented economic development in the 1960s and 1970s were short-lived. They lasted three years in Argentina and Mexico, four years in Chile, and six to seven years in Brazil and Colombia. In no case was their end declared openly by the formal cancellation of programs, but their effectiveness was eroded by subsequent upheavals in macroeconomic policies and external conditions.

Export-oriented strategies were usually adopted in conjunction with stabilization programs. The sacrifices required for stabilization tended to obscure the underlying benefits of trade liberalization for economic growth. Besides, export promotion could involve significant loss of tax revenues and increased credit demands, features at odds with stabilization imperatives. Where stabilizations were ineffective and exchange rates inappropriate, trade liberalization allowed easy spillover of excess domestic demand into imports, provoking balance of payments pressures that doomed continued liberalization. Rapid commodity price inflation after the first oil shock discouraged export promotion. For example, in Colombia there was the coffee boom and, in Mexico, the oil boom. In Brazil, the huge rise in oil import costs resulting from the price shocks of the 1970s heightened the appeal of import substitution in preference to trade liberalization. Amid ample foreign exchange resources, and with the availability of large-scale financing from foreign banks, maintenance of competitive exchange rates no longer appeared necessary.

Failure to avoid currency overvaluation typified the weakened commitment to export promotion and diversification. Overvaluation afflicted Colombia after 1975, Mexico in 1974-76 and again in 1979-81, Argentina in 1979-81, and Chile in 1980-82. Overvalued exchange rates put local industries at a disadvantage in export markets and subjected them to stiff competition from cheapened imports. The gains from trade liberalization were swamped, giving outward-looking policies a bad name. Still, whenever export promotion and trade liberalization were tried, no matter in how limited a way, the results were uniformly favorable so long as exchange rates and macroeconomic policies played, if not a constructive, then at least

Table 10

Effects of manufactures exports promotion

data exclude processed metals

	$ millions	*As % of total exports*	*Average annual % change, constant $**
Argentina			
1975	700	23.6	
1978	1,469	23.0	20.6
Brazil			
1967	115	7.0	
1973	1,106	17.6	38.8
Chile			
1975	136	8.2	
1979	591	15.7	34.0
Colombia			
1967	39	7.7	
1974	377	26.6	34.9
*Mexico***			
1970	361	30.0	
1973	1,074	40.8	34.6

*Exports in current dollars deflated by U.S. wholesale prices.

**Excludes earnings from assembly industries.

not a destructive role. It is no coincidence that Brazil, the only major country in Latin America that avoided prolonged currency overvaluation during the 1970s, is also the only country to have diversified its exports steadily and significantly away from primary commodities: the share of manufactures in overall Brazilian exports rose from 7% in 1967 to 35% in 1983-84 — currently the highest in the region.

Trade policies since the debt crisis

The debt crisis that hit Latin America in 1982 was far more severe, and more general, than any external payments difficulties the region had faced since the Great Depression. Trade liberalization was quickly put on the back burner as governments struggled to cope with the crisis. The only positive development, from the standpoint of trade policy, was the series of currency devaluations in response to current account and capital flight pressures. This was beneficial to export sectors, but it also was accompanied by a tightening of import controls. Indeed, in 1983 it was import repression that accounted for much of the reduction in current account deficits. Since then the external environment facing the major Latin American borrowers has been considerably improved by the economic recovery in industrial countries and, more recently, by the fall in dollar interest rates. However, while many Latin American countries have effected improvements in at least some aspects of their trade policies, there has often been backsliding as well. And for several countries, exchange rate competitiveness is once again seriously impaired.

Argentina imposed stringent exchange and trade controls in early 1982 upon the outbreak of hostilities in the South Atlantic. While the controls were later partly relaxed, renewed deterioration of the balance of payments in the last months of 1983 resulted in fresh controls. Acute and unresolved economic problems have deterred the present government from significant trade and payments liberalization. Imports are either prohibited, subject to prior approval, or subject to automatic licenses made available with some delay — this last category encompassing a large proportion of imports. As for exports, nontraditional products continue to benefit from fiscal and credit incentives. However, agricultural sales are once again being taxed heavily for fiscal reasons. Wheat, corn, and soybean exports, which were taxed little or not at all in the late 1970s, became subject to taxes of 10% in 1981, 25% in 1982-83, and are currently taxed at rates of 18%, 21%, and 25%, respectively. These taxes offset much of the gain in profitability derived from the exchange rate adjustments that have been made in the past four years.

Brazil moved to increase trade and payments restrictions in the wake of the second oil shock, and intensified them as the country got caught up in the debt crisis. In 1980, a tax — of 15% at first, later 25% — was imposed on private-sector purchases of foreign exchange. Strict ceilings, determined annually since then, were placed on public-sector imports. The current import licensing system was introduced in 1981; under it, large importers must negotiate with the authorities a yearly import budget before licenses are issued. The list of prohibited imports was expanded during 1982 and a comprehensive foreign exchange budgeting system was introduced in 1983. In recent months, by contrast, the authorities have loosened up nontariff barriers to imports; they have also lowered the tax on foreign currency purchases and narrowed its scope. As for exports, the benefits of the major currency devaluation in 1983 were subsequently reduced by the elimination of the export tax credit and a cut in prefinancing subsidies. Also, competitiveness has been lost because the currency has been devalued vis-à-vis the dollar only to the extent of domestic inflation measured by a general price index that roughly parallels the GDP deflator. Yet, domestic manufactures prices have been going up faster than the general index. Nor has allowance been made for the strengthening of the dollar far above purchasing power parity in world currency markets.

Chile, virtually the only country in Latin America to rely on tariff rather than nontariff import barriers, increased tariffs from 10% to 20% in early 1983 and to 35% in late 1984. More recently, however, tariffs were lowered to 30% in conjunction with a larger-than-usual exchange rate devaluation. Nevertheless, tariffs discourage exports because Chile is one of the few countries that fails to provide exporters duty-free access to imported inputs. The exchange rate, meanwhile, remains less competitive now than in 1975-79.

Colombia, since 1982, has subjected practically all import categories on the once freely importable list to licensing; customs duties were raised in 1984 by 25 percentage points; and a new import tax of 8% went into effect at the beginning of this year. Fiscal incentives to promote exports have been increased: tax rebates are now as high as 25% of export value, up from less than 10% two years ago. Recently, the government has been considering measures to simplify and liberalize the trade regime in connection with a proposed export development loan from the World Bank. Loan disbursements would be conditional on progress in facilitating duty-free inputs for exporters and in dismantling nontariff import restrictions. Meanwhile, the currency remains substantially less competitive on a real effective basis than it was throughout the 1970s, despite an acceleration in the pace of devaluations.

Mexico did not raise tariffs in response to the debt crisis. These were already high by world standards, if not those of Latin America. Instead, licensing was extended to virtually all imports by late 1982. Starting in mid-1983, however, licenses were more liberally granted and were dropped on categories equivalent to about 20% of total import value. Mexico's March 1985 Letter of Intent to the IMF promises to drop licensing rules on a further 20% of imports. Permits would be granted automatically whenever local prices for spare parts and raw materials exceed world prices by more than 50%. The number of tariff rates and their range would be reduced, and local producers of intermediate inputs for export products would gain easier access to their own import needs. As for export incentives, tax rebates were reduced in late 1982 following large devaluations and in response to U.S. countervailing duty threats. More recently, the so-called DIMEX plan has been proposed. This would allow exporters free import of goods up to 40% of the value of export proceeds, with no duties on the imported component of exports. However, at present implementation is delayed by domestic opposition. Meanwhile, devaluations have lagged well behind Mexico's inflation. On a real effective basis, the peso now is nearly as overvalued as it was at its peak in January 1982.

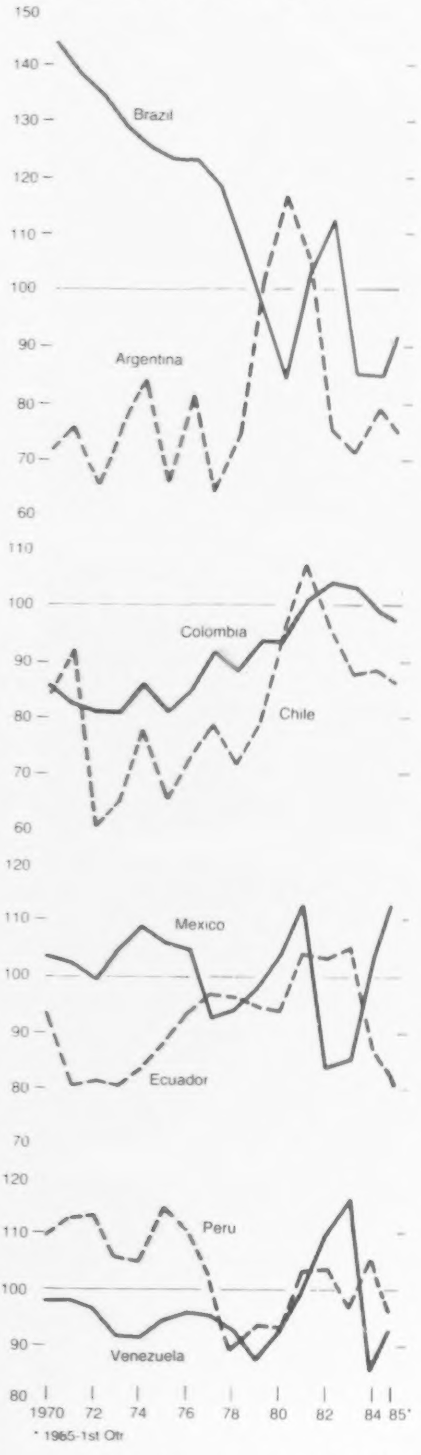
Thus, in much of Latin America, protective barriers sheltering local economies stand higher today than before the debt crisis, while some

Chart 4

Real effective exchange rates

annual averages

index numbers, 1980 - 82 = 100



* 1985-1st Qtr

currencies are again becoming overvalued (see Chart 4). Evidently, despite some tentative moves to undo the emergency trade and payments controls occasioned by the debt crisis, Latin America still has not cast off its long-standing ambivalence toward integration into the global marketplace.

The way forward

The time has come for Latin America to take a fresh and realistic look at its trade policies. For some years ahead the region cannot bank on windfalls from any run-up in commodity prices or large-scale infusion of foreign capital — nor even, as things stand, any significant repatriation of flight capital. Thus, Latin America would do well to remove self-imposed impediments to its agricultural and raw material exports, while building up efficient manufacturing sectors that are competitive in world markets — competitive particularly with those of the Asian NICs.

Several ingredients are vital for success. As backdrop, sustained economic growth in the industrial countries is a necessary, though hardly sufficient, condition. At center stage, in Latin America itself, the need is for supportive macroeconomic policies, competitive exchange rates, and trade policies that forego interventionism in favor of efficiency-boosting liberalization. Most important, the debtor countries need to pursue constructive policies that are both consistent and constant in application.

The most perfect of trade policies are impotent when domestic macroeconomic policies fail to be supportive. To date, those domestic policies have had discouraging results in Latin America, highlighted by the failure to bring down inflation. Under such conditions no market economy can function effectively: resource allocation is distorted; investment is discouraged; exchange rate management becomes erratic and export incentives meaningless. In addition, economic activity seeps underground while capital flees abroad in pursuit of more reliable return. The region's own experience demonstrates that there can be no fundamental improvement in export capability or in general economic efficiency so long as fiscal, monetary, and wage policies fail to discipline inflation.

Latin America's exchange rate competitiveness has been allowed to slip during the past year. Governments have been permitting appreciation in real terms, whether — as in Mexico — because reserves seem comfortable and appreciation exerts some brake on inflation or — as in Brazil — because devaluations fail to allow for the radically changed relationship between the dollar and other major currencies since the 1982-83 devaluation of Latin American currencies. The lessons of experience are clear: overvalued currencies cause balance of payments deterioration.

Other policies that discourage exports should be reexamined. For example, some Latin American countries heavily tax exports of traditional products because such levies are easy to collect, yet at the same time the taxes subvert comparative advantage and damage export prospects. New licensing restrictions also should be avoided, since even the possibility of their imposition discourages producers from seeking foreign markets.

Further, past policies have often disadvantaged export industries by forcing use of overly expensive domestic inputs and discouraging investment. In order to boost productivity and speed modernization, even partial steps to improve access to competitively priced inputs would be beneficial — for example, the drawback of duties or the immediate duty-free use of imported inputs. While many countries already offer such schemes in some form, their scope could be expanded and their administration made more automatic: delays increase production costs and reduce confidence in the ability of exporters to meet sales commitments. In addition, a warmer welcome for foreign investment, including assembly operations, would expand opportunities to earn foreign exchange while increasing managerial skills and capital available to the economy as a whole.

Eventually, trade policies in the region should work for more comprehensive liberalization. Nominal tariffs often approach or exceed 50%, not to mention pervasive licensing and other nontariff barriers. Moreover, the structure of protection displays inordinately wide dispersion. This unduly discourages production in some sectors, while making production for the domestic market attractive in other sectors, yet inefficient. At the same time, despite sector-specific palliatives, an anti-export bias results. In all, the existing allocation of resources is grossly misaligned with comparative advantage. Fundamental improvement can be secured only by reforms that substitute tariffs for quantitative controls, lower protection in general, and make the incidence of remaining protection more uniform.

As for export incentives, the strengthening of a liberal world trade order is of great importance to Latin America. Its industrial-country trading partners are sensitive concerning subsidies or tax rebates and write-offs dependent on export performance, let alone quantitative export requirements imposed on foreign direct investors. These issues continue to provoke disputes and countervailing duty actions. If Latin America is to benefit from the global trade negotiations that most industrial countries hope to initiate in 1986, it is not enough for the region to stand pat on demands for a rollback of industrial-country protection. Latin America should be more forthcoming and flexible about its own trade policies.

Any prescription for improved trade policies in Latin America will have to confront local realities. Business interests and labor movements have grown up on a diet of import substitution, and can be expected to be wary of liberalization. Import licensing systems have provided the government bureaucracy with discretionary powers to direct resources and influence income distribution; export taxes have been tempting because they pose fewer political difficulties than other forms of taxation. The actions taken so far, while motivated by the need to overcome current difficulties, have not yet led to a lasting trade commitment. Such commitment will only develop based on steadfastness of policy objectives and implementation.

Trade liberalization in Latin America is the best way to boost the region's economic growth and employment prospects. Recovery in domestic investment, necessary for an improvement in medium-term economic growth, will likely require stepped-up imports of capital goods and intermediate goods. Thus, sound trade policies that lead to good export performance will be an integral part of Latin America's efforts to attain satisfactory per capita income growth and to build debt-servicing capacity during the remainder of this decade.

Statistical appendix

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see March/April 1985 issue.

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Information herein is from sources considered to be reliable but is furnished without responsibility on the part of Morgan Guaranty Trust Company.

Nominal effective exchange rates

Index numbers, 1980-82 average = 100. Each index shows a currency's trade-weighted appreciation or depreciation measured against 15 other major currencies, using averages of daily noon spot exchange rates in New York and bilateral trade weights based on 1980 trade in manufactures. Annual figures are calendar year averages.

	United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Belgium	Neth-erlands	Spain	Swit-zerland	Den-mark	Norway	Swe-den
1980	90.7	100.4	95.5	96.0	106.5	100.0	108.4	99.8	99.4	105.9	100.2	106.5	95.4	105.1	98.2	103.9
1981	99.5	100.2	105.8	104.0	100.4	97.2	98.8	102.1	98.9	101.8	97.1	99.4	98.3	99.2	100.1	103.3
1982	109.8	99.4	98.6	100.1	93.1	102.8	92.8	98.1	101.7	92.3	102.7	94.1	106.3	95.7	101.7	92.8
1983	114.2	100.8	107.8	92.0	87.3	107.6	90.3	91.6	103.6	90.0	105.0	78.4	111.5	96.4	99.4	82.2
1984	122.4	97.3	113.0	94.2	84.4	107.4	86.7	88.1	103.6	88.9	104.0	77.4	110.5	93.9	97.8	84.3
1984																
May	119.5	96.8	114.6	95.1	84.6	107.7	86.9	89.1	103.8	88.8	104.4	78.4	110.9	93.6	99.1	83.6
June	120.2	96.2	113.3	93.0	84.9	108.2	87.0	88.6	104.2	88.9	104.6	78.0	110.1	93.8	99.1	83.4
July	124.2	95.4	110.8	90.3	84.6	107.7	87.3	87.7	104.1	89.3	104.0	77.3	107.9	93.7	97.4	84.4
August	124.0	97.0	111.4	91.9	84.3	107.3	86.6	87.9	103.8	89.3	103.8	76.6	108.8	93.5	97.1	84.6
September	127.3	96.7	112.0	92.1	83.6	106.2	85.9	87.1	103.2	88.9	103.1	76.9	109.3	93.2	96.9	85.6
October	128.5	96.6	112.0	93.6	83.7	106.3	85.7	85.3	103.2	88.7	103.2	77.0	109.8	93.4	97.1	85.6
November	126.8	96.5	112.5	95.0	84.0	106.7	85.6	85.2	103.4	89.3	103.5	77.4	110.2	94.2	95.5	85.1
December	129.5	96.7	112.0	94.8	83.6	106.1	86.0	83.7	103.2	89.3	103.0	77.8	109.5	94.5	95.5	85.0
1985																
January	132.0	96.9	110.5	93.8	83.7	106.2	86.3	81.0	103.4	89.9	103.0	78.1	107.8	95.0	95.7	85.0
February	136.4	95.3	110.0	86.8	83.5	105.8	85.4	81.4	103.3	89.3	102.5	77.6	105.9	94.4	95.8	85.5
March	136.9	93.2	111.3	81.5	83.7	105.9	83.7	84.0	103.0	89.0	102.5	77.2	105.8	94.3	95.7	84.6
April	131.7	93.6	111.5	74.2	84.5	106.7	83.0	88.1	103.8	89.2	102.9	77.5	108.0	94.5	96.0	83.6
March 29	133.0	93.3	111.2	80.0	84.2	106.4	82.9	37.5	103.5	89.0	102.9	77.4	106.7	96.5	95.7	83.9
April 5	133.1	93.3	111.2	76.2	84.2	106.4	83.2	87.1	104.0	89.2	103.0	77.7	106.9	94.9	96.1	84.0
12	132.4	93.4	111.0	75.5	84.5	106.8	83.0	87.8	103.3	89.1	102.9	77.2	107.4	94.4	95.8	83.5
19	129.3	93.8	111.6	72.9	84.6	107.0	83.2	89.5	104.0	89.3	102.9	77.9	109.0	94.8	96.1	83.1
26	131.5	93.8	111.8	73.9	84.4	106.5	83.0	87.9	103.8	89.2	102.8	77.6	108.9	94.5	96.0	83.7
May 3	132.8	93.3	111.7	74.2	84.2	106.2	83.0	88.3	103.8	89.2	102.7	77.2	107.5	93.9	96.0	83.8
10	133.3	92.8	111.7	77.3	84.3	106.5	82.8	88.2	103.0	88.8	102.8	76.3	106.9	93.7	95.7	83.5
17	131.0	92.9	111.3	77.3	84.5	106.7	83.0	89.4	103.4	89.1	103.0	76.6	107.8	94.0	95.7	83.7

Real effective exchange rates —industrial countries

Index numbers, 1980-82 average = 100. Each index is the corresponding nominal effective exchange rate adjusted for differential inflation in wholesale prices of nonfood manufactures. Underlying price data are partly estimated. Index revisions reflect revised price information or, less frequently, adoption of new price indices to measure inflation in one or more countries.

	United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Belgium	Neth-erlands	Spain	Swit-zerland	Den-mark	Norway	Swe-den
1980	89.4	99.6	103.0	93.0	102.2	103.5	103.5	99.3	100.2	107.5	99.9	100.9	98.7	103.5	96.6	101.2
1981	100.7	100.0	104.6	102.7	100.0	97.3	98.7	102.3	99.1	100.3	97.7	99.4	98.8	99.2	100.9	102.1
1982	109.9	100.4	92.3	104.3	97.7	99.2	97.8	97.9	100.7	92.3	102.5	99.8	102.6	97.3	102.5	96.7
1983	112.7	103.1	96.6	100.0	95.9	99.4	100.2	92.1	101.7	92.1	101.8	90.6	104.4	98.8	101.3	91.5
1984	118.2	101.2	97.6	105.1	96.8	96.6	101.0	89.3	102.8	90.6	100.1	95.1	99.5	96.5	100.1	96.9
1984																
May	115.8	100.5	99.1	105.6	97.2	96.9	101.2	90.2	102.6	91.0	100.5	95.6	99.5	95.5	101.7	95.7
June	116.4	99.9	97.7	103.6	97.5	97.1	101.4	89.7	103.1	90.9	100.9	95.8	99.1	97.2	101.3	95.4
July	120.0	99.5	95.4	101.1	97.8	96.7	101.8	89.0	103.0	90.8	100.3	95.1	96.7	95.3	99.1	97.0
August	119.5	101.2	96.0	103.3	97.1	96.1	101.5	89.4	103.0	91.3	99.9	94.4	97.3	95.8	98.5	97.8
September	121.5	101.4	96.8	103.8	96.2	95.3	101.1	88.7	102.0	90.9	99.2	95.6	97.9	97.2	99.5	98.9
October	123.7	100.4	96.0	105.0	96.4	95.3	100.8	86.7	101.8	90.2	98.9	96.0	98.9	96.7	100.1	99.2
November	122.1	100.5	96.3	106.6	97.2	95.5	100.6	86.9	102.6	90.6	99.0	97.1	98.8	98.1	98.4	98.4
December	124.2	101.1	95.7	106.5	98.2	94.7	100.5	85.5	102.4	90.4	98.3	97.7	98.1	98.2	98.1	98.8
1985																
January	126.1	101.6	94.1	105.1	98.0	95.1	102.1	83.3	102.4	90.3	97.7	98.5	96.3	97.8	97.4	99.5
February	129.8	100.1	93.6	97.2	98.2	94.8	101.0	83.8	102.1	89.3	96.8	98.6	95.0	96.4	98.1	100.4
March	130.1	97.9	94.4	91.3	99.0	94.8	99.0	86.8	101.9	88.7	96.5	97.6	94.8	96.0	97.8	99.6
April	124.8	98.6	94.3	83.1	100.3	95.6	98.5	91.5	102.6	88.4	96.5	98.3	96.7	95.8	97.8	98.8

Real effective exchange rates – developing countries

Index numbers, 1980-82 = 100

	Argentina	Brazil	Chile	Colombia	Mexico	Peru	Venezuela	Hong Kong	Indonesia	Korea	Malaysia	Philippines	Singapore	Taiwan	Israel	Turkey
1980	116.4	84.8	95.3	94.7	103.7	93.1	91.3	98.4	89.6	95.9	96.2	94.7	98.6	100.9	92.9	102.9
1981	107.7	103.2	108.2	100.4	112.4	103.2	99.6	99.5	99.6	101.2	99.3	101.8	102.7	102.6	99.3	102.5
1982	75.9	112.0	96.6	104.8	84.0	103.7	109.1	102.3	110.8	103.0	104.5	106.2	98.7	96.5	107.8	94.6
1983	71.1	85.4	88.8	103.9	85.6	97.6	116.0	96.8	95.7	97.3	112.7	95.7	97.1	93.1	119.5	95.4
1984	79.8	85.2	89.9	99.1	103.4	105.7	85.5	100.4	96.8	95.8	119.0	108.1	95.8	95.4	118.4	87.9
1984																
April	80.2	78.8	88.8	99.3	99.4	102.7	71.6	96.2	93.9	94.0	116.3	106.4	95.8	92.6	115.0	83.5
May	83.8	80.6	89.8	99.7	102.1	103.6	74.0	97.9	95.6	94.8	118.0	111.6	96.0	94.1	116.7	85.9
June	83.3	83.0	90.3	98.8	103.2	106.8	77.2	98.3	96.5	95.1	118.4	101.6	95.2	94.5	117.5	85.7
July	85.6	86.1	91.3	99.3	104.6	108.6	79.5	100.7	98.8	96.0	120.7	105.3	95.7	96.6	117.6	87.2
August	85.7	85.9	92.4	99.1	104.2	109.0	83.5	100.9	97.4	96.2	121.4	107.0	96.3	97.5	119.1	89.7
September	88.6	88.3	93.0	99.9	105.7	109.6	85.8	103.8	97.4	97.6	123.3	114.5	96.9	98.9	122.0	90.5
October	81.9	89.6	89.7	98.2	107.6	107.8	87.5	105.4	97.8	97.2	121.0	113.1	96.0	98.1	122.1	91.6
November	72.8	88.2	88.2	97.3	108.7	104.8	87.8	104.8	96.5	96.3	119.6	109.8	95.0	96.7	122.2	91.5
December	76.0	90.8	87.0	97.9	108.6	101.5	88.7	107.1	98.9	96.7	120.7	112.6	95.3	97.3	114.3	92.2
1985																
January	74.8	93.7	88.1	98.7	110.4	98.2	91.1	108.7	100.1	96.8	121.9	120.1	95.4	98.1	109.5	96.1
February	74.7	92.9	89.6	99.6	112.6	97.0	93.3	112.2	101.4	97.8	120.4	128.2	95.5	99.4	119.8	100.5
March	77.1	86.8	84.2	96.9	112.9	92.9	94.5	111.7	100.2	96.1	119.8	129.5	95.2	98.6	115.7	98.8

International banking market size

at end of period, billions of dollars

	1980	*1981*	*1982^r*	*1983*	*1984*			
				Dec^r	*Mar^r*	*Jun^r*	*Sep^r*	*Dec*
Gross claims								
Eurocurrencies, on residents and nonresidents	**1 559**	**1 924**	**2 140**	**2 253**	**2 341**	**2 325**	**2 321**	**2 352**
On nonbanks	430	579	643	665	686	672	675	684
On banks	1 129	1 345	1 496	1 588	1 655	1 653	1 646	1 668
In dollars	1 167	1 505	1 696	1 796	1 842	1 846	1 856	1 888
In other currencies	392	419	444	457	499	479	465	464
Domestic currencies, on nonresidents	**349**	**370**	**403**	**405**	**409**	**415**	**402**	**408**
On nonbanks	143	154	150	143	145	149	147	148
On banks	206	216	253	262	264	266	255	260
In dollars	177	194	221	224	215	227	217	221
In other currencies	172	176	185	181	194	186	185	187
Total	**1 908**	**2 294**	**2 543**	**2 658**	**2 750**	**2 740**	**2 723**	**2 760**
On nonbanks	573	733	793	808	831	821	822	832
On banks	1 335	1 561	1 750	1 850	1 919	1 919	1 901	1 928
In dollars	1 344	1 699	1 916	2 020	2 057	2 073	2 073	2 109
In other currencies	564	595	629	638	693	665	650	651
Gross liabilities								
Eurocurrencies, to residents and nonresidents	**1 574**	**1 950**	**2 164**	**2 280**	**2 365**	**2 362**	**2 350**	**2 383**
To nonbanks	278	392	432	479	501	504	492	497
To official monetary institutions	127	113	91	86	83	88	94	97
To other banks	1 168	1 446	1 641	1 715	1 781	1 770	1 764	1 789
In dollars	1 193	1 538	1 744	1 849	1 885	1 907	1 914	1 948
In other currencies	381	412	420	431	480	455	436	435
Domestic currencies, to nonresidents	**284**	**267**	**255**	**263**	**268**	**284**	**280**	**285**
To nonbanks	85	177	167	77	77	77	78	85
To banks	199	90	88	186	191	207	202	200
In dollars	139	130	121	138	134	147	146	151
In other currencies	145	137	134	125	134	137	134	134
Total	**1 858**	**2 217**	**2 419**	**2 543**	**2 633**	**2 646**	**2 630**	**2 668**
To nonbanks	363	569	599	556	578	581	570	582
To banks and official institutions	1 494	1 649	1 820	1 987	2 055	2 065	2 060	2 086
In dollars	1 332	1 669	1 865	1 987	2 019	2 054	2 060	2 099
In other currencies	526	548	554	556	614	592	570	569
Net market size	**941**	**1 176**	**1 332**	**1 392**	**1 412**	**1 426**	**1 417**	**1 426**

International bond issues and bank credits

millions of dollars

	1982	1983	1984	1985 Feb	1985 Mar	1985 Apr	Jan-Apr 1985	Jan-Apr 1984
By country of borrower								
Industrial countries	**108 772**	**102 652**	**177 077**	**16 320**	**10 786**	**15 348**	**60 286**	**73 334**
Australia	7 213	5 737	5 816	541	873	838	3 003	1 252
Austria	2 068	1 290	2 254	—	356	112	805	1 095
Belgium	1 528	2 168	1 847	62	116	336	967	444
Canada	15 856	8 571	13 124	959	1 092	400	6 864	3 952
Denmark	2 725	3 941	4 825	319	74	440	1 231	1 405
Finland	1 446	1 271	1 713	100	139	60	603	634
France	14 813	8 626	11 298	1 553	1 172	614	4 272	3 232
Germany	1 101	3 197	2 165	104	—	50	440	1 032
Greece	808	1 291	1 551	172	—	200	669	550
Ireland	1 136	1 869	1 377	38	—	191	592	172
Italy	6 687	4 876	6 933	1 693	1 095	1 926	5 470	1 657
Japan	8 397	14 428	17 526	1 821	1 403	1 763	7 575	7 982
Netherlands	1 000	1 213	1 973	106	14	133	391	1 295
New Zealand	4 786	802	3 208	53	121	—	485	502
Norway	2 601	1 969	1 324	213	172	135	660	476
Portugal	1 684	1 030	1 796	242	549	68	879	481
South Africa	1 889	1 300	1 422	22	—	201	402	514
Spain	2 675	4 977	4 931	702	125	616	1 651	2 142
Sweden	3 181	7 144	11 256	590	1 068	509	2 816	3 926
United Kingdom	2 836	2 726	8 899	931	599	1 378	3 400	3 203
United States	21 109	20 276	65 054	5 910	1 587	5 149	16 416	35 953
*Other**	3 233	3 950	6 785	190	232	232	695	1 435
Developing countries	**49 023**	**38 256**	**39 725**	**966**	**2 413**	**1 586**	**6 901**	**19 376**
Latin American countries	**29 667**	**15 592**	**17 464**	**151**	**381**	**286**	**1 015**	**10 685**
Argentina	1 565	1 750	4 212	—	—	—	—	12
Brazil	5 972	4 475	6 649	—	—	—	—	6 500
Chile	1 194	1 405	784	—	—	—	—	—
Colombia	776	552	589	—	—	—	—	195
Mexico	9 968	5 138	3 918	—	—	—	—	3 800
Venezuela	7 241	237	—	—	—	—	—	—
*Other***	2 951	2 035	1 312	151	381	286	1 015	178
Asian countries	**11 723**	**12 978**	**15 853**	**643**	**1 976**	**750**	**4 028**	**5 819**
India	555	968	945	92	25	21	288	275
Indonesia	1 822	2 363	1 924	—	—	—	—	782
Korea	3 277	4 387	6 201	151	965	423	1 786	2 114
Malaysia	2 872	2 197	2 605	—	600	92	810	1 304
Philippines	888	878	925	—	—	—	—	—
Thailand	414	747	1 221	400	150	—	550	430
Other	1 895	1 438	2 072	—	236	214	594	914
Middle Eastern and African countries	**7 633**	**9 686**	**6 368**	**173**	**55**	**550**	**1 858**	**2 872**
Algeria	86	1 993	821	—	—	—	600	—
Nigeria	2 069	2 343	985	—	—	—	—	985
Turkey	277	1 106	741	—	51	500	551	500
Other	5 201	4 244	3 821	173	5	50	707	1 387
Eastern European countries	**1 479**	**1 294**	**3 244**	—	**562**	**408**	**1 506**	**1 325**
Hungary	340	741	1 386	—	39	25	294	885
Soviet Union	1 131	93	1 051	—	—	262	467	365
*Other****	8	460	807	—	523	122	745	75
International organizations****	**11 353**	**16 201**	**13 267**	**1 368**	**1 558**	**1 677**	**6 358**	**4 329**
By type of instrument and currency								
International bund issues	**78 042**	**76 329**	**107 411**	**13 928**	**9 845**	**12 417**	**49 566**	**39 215**
Eurobonds	51 645	48 501	79 458	11 909	7 946	9 886	40 720	27 407
U.S. dollar	43 959	38 428	63 593	10 468	5 835	7 195	31 385	21 583
German mark	2 588	3 817	4 604	142	82	435	1 733	1 741
British pound	748	1 947	3 997	189	973	433	1 795	1 716
Japanese yen	374	212	1 212	546	117	478	1 686	240
European composite units	1 980	2 019	3 032	239	404	738	1 874	1 215
Other	1 996	2 078	3 020	325	536	607	2 248	912
Foreign bonds	26 397	27 828	27 953	2 019	1 898	2 531	8 846	11 808
U.S. dollar	5 946	4 545	5 487	300	315	308	1 448	3 068
German mark	2 952	2 671	2 243	39	232	145	624	755
British pound	1 214	811	1 292	65	—	92	157	502
Swiss franc	11 432	14 299	12 626	1 141	971	662	3 776	5 841
Japanese yen	3 418	3 772	4 628	334	234	1 195	2 266	1 135
Other	1 435	1 730	1 677	90	147	129	576	507
International bank credits	**92 585**	**82 074**	**125 922**	**4 726**	**5 475**	**6 602**	**25 485**	**59 149**
Eurocurrency credits	85 015	74 222	112 605	4 303	4 590	6 459	23 553	55 378
Foreign credits	7 570	7 852	13 317	423	884	143	1 932	3 771
Total	**170 627**	**158 403**	**233 333**	**18 654**	**15 319**	**19 019**	**75 051**	**98 364**

*Includes multinational organizations. **Includes unallocated. ***Includes COMECON institutions. ****Includes regional development organizations.

Eurocurrency deposit rates

prime banks' bid rates, at or near end of month

	1981	1982	1983	1984			1985			
	Dec	Dec	Dec	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Eurodollar										
overnight	12.87	9.25	9.50	9.81	8.69	8.63	8.50	8.44	8.81	8.31
one month	13.31	9.13	9.69	9.75	8.81	8.38	[illegible]	8.88	8.69	8.38
three months	13.75	9.19	9.81	10.00	9.06	8.63	8.44	9.44	9.00	8.69
six months	14.81	9.50	10.06	10.25	9.50	9.13	8.69	10.00	9.44	9.00
twelve months	14.75	9.63	10.38	10.81	10.06	9.81	9.31	10.75	10.13	9.75
Euro-Canadian dollar										
one month	15.37	10.00	9.13	11.38	10.88	9.88	9.63	10.38	10.38	9.50
three months	15.37	10.00	9.50	11.38	10.50	10.81	9.63	11.19	10.56	9.81
six months	16.37	10.13	9.75	11.56	10.56	10.06	9.63	11.75	10.69	10.38
twelve months	16.37	10.25	10.00	11.63	10.56	10.44	9.88	12.06	12.00	10.75
Euro-french franc										
one month	15.75	23.00	12.13	10.38	10.69	10.69	10.31	10.63	10.63	10.31
three months	17.00	24.00	12.19	10.69	10.88	10.69	10.56	11.00	10.81	10.44
six months	18.00	22.00	12.31	11.31	11.19	11.00	11.00	11.44	11.25	10.75
twelve months	18.25	19.75	12.63	11.75	11.63	11.38	11.63	11.88	11.56	10.94
Euromark										
one month	10.44	5.88	5.25	5.56	5.56	5.50	5.75	5.81	5.69	5.75
three months	10.50	5.88	5.88	5.81	5.56	5.50	6.00	6.06	5.88	5.81
six months	10.56	5.94	6.13	5.81	5.63	5.56	6.06	6.38	6.06	5.88
twelve months	10.25	6.00	6.38	5.88	5.69	5.56	6.13	6.56	6.25	6.06
Euro-Dutch guilder										
one month	10.75	5.13	5.81	5.81	5.63	5.69	6.00	6.81	6.69	[illegible]
three months	10.75	5.19	6.00	6.00	5.81	5.75	6.13	7.06	6.81	[illegible]
six months	10.75	5.38	6.25	6.13	5.88	5.81	6.19	7.13	6.88	6.94
twelve months	10.75	5.63	6.33	6.25	6.00	5.94	6.31	7.31	6.94	7.00
Euro-Swiss franc										
one month	8.87	2.81	3.38	4.63	5.13	4.44	5.38	5.50	5.19	5.00
three months	9.25	3.25	3.75	5.06	4.94	4.56	5.38	5.75	5.50	5.19
six months	9.25	3.41	3.94	5.06	4.94	4.63	5.31	5.81	5.56	5.25
twelve months	8.50	3.44	3.94	5.00	4.94	4.69	5.19	5.63	5.44	5.25
Eurosterling										
one month	15.37	10.56	9.13	10.63	9.69	9.50	13.13	14.00	13.56	12.75
three months	15.69	10.44	9.31	10.50	9.69	9.88	12.50	13.88	13.13	12.69
six months	15.69	10.31	9.50	10.44	9.81	10.00	11.94	13.13	12.31	12.44
twelve months	15.37	10.31	9.81	10.56	10.00	10.19	11.58	12.69	11.94	12.13
Euroyen										
one month	6.12	6.75	6.25	6.13	6.50	6.19	6.19	6.50	6.25	6.13
three months	6.12	6.75	6.31	6.31	6.31	6.19	6.31	6.38	6.31	6.25
six months	6.87	7.10	6.38	6.31	6.31	6.13	6.25	6.31	6.31	6.31
twelve months	6.87	6.81	6.44	6.31	6.31	6.13	6.25	6.31	6.31	6.31
European currency unit										
one month	14.63	12.44	8.81	9.50	9.19	9.25	9.94	9.94	10.00	9.38
three months	14.75	12.31	9.19	9.69	9.31	9.38	9.94	10.06	10.13	9.56
six months	15.00	12.00	9.44	9.81	9.38	9.50	9.94	10.13	10.13	9.69
twelve months	14.56	11.19	9.63	10.00	9.69	9.63	9.94	10.13	10.25	9.88

International bond yields

average yield of several actively traded, high quality issues with a maturity of 7 to 12 years at or near end of month

	1982	1983	1984				1985			
	Dec	Dec	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
United States companies										
Eurodollar	11.16	11.59	12.09	11.85	11.17	11.25	11.05	11.65	11.73	11.24
Euromark	7.24	7.34	7.30	7.19	7.08	6.95	7.19	7.57	7.35	7.11
Swiss franc	5.70	5.83	5.72	5.78	5.70	5.73	5.85	5.95	5.86	5.74
European governments										
Eurodollar	12.53	12.65	12.92	12.49	12.00	12.04	11.72	12.40	12.29	11.97
Euromark	8.10	8.12	7.78	7.61	7.43	7.39	7.34	7.88	7.61	7.54
Swiss franc	5.40	5.63	5.39	5.40	5.43	5.24	5.17	5.35	5.34	5.21
European currency unit	n.a.	11.77	11.43	11.00	10.79	10.84	10.32	10.65	10.44	10.39

Central bank discount rates

at or near end of month

	1981	1982	1983	1984	1985				Current	
	Dec	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May 17 1985	effective since
United States	12.00	8.50	8.50	8.00	8.00	8.00	8.00	8.00	7.50	May 17, 85
Canada	14.66	10.05	9.96	10.09	9.75	11.52	10.65	10.02	9.70	May 16, 85
Austria	6.75	4.75	3.75	4.50	4.50	4.50	4.50	4.50	4.50	Jun 28, 84
Belgium	15.00	11.50	10.00	11.00	11.00	11.00	11.00	11.00	9.50	May 20, 85
Denmark	11.00	10.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	Oct 27, 83
Finland	9.25	8.50	9.50	9.50	9.50	9.00	9.00	9.00	9.00	Feb 1, 85
France	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	Aug 31, 77
Germany	7.50	5.00	4.00	4.50	4.50	4.50	4.50	4.50	4.50	Jun 29, 84
Ireland	16.50	14.00	12.25	14.00	14.00	14.00	14.00	12.75	12.75	Apr 19, 85
Italy	19.00	18.00	17.00	16.50	15.50	15.50	15.50	15.50	15.50	Jan 4, 85
Netherlands	9.00	5.00	5.00	5.00	5.00	5.50	5.50	5.50	5.50	Feb 1, 85
Norway	9.00	9.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	Jun 6, 83
Portugal	18.00	19.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00	Aug 10, 83
Spain	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	Jul 26, 77
Sweden	11.00	10.00	8.50	9.50	9.50	9.50	9.50	9.50	11.50	May 14, 85
Switzerland	6.00	4.50	4.00	4.00	4.00	4.00	4.00	4.00	4.00	Mar 18, 83
United Kingdom	14.37	10.00	9.00	9.38	13.75	13.75	12.75	12.25	12.25	Apr 19, 85
Japan	5.50	5.50	5.00	5.00	5.00	5.00	5.00	5.00	5.00	Oct 22, 83
New Zealand	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	Jul, 81
South Africa	13.50	15.45	18.50	21.75	22.75	22.33	22.33	21.25	21.00	May 3, 85
Argentina	98.50	128.54	183.75	221.31	231.89	231.89	252.85	314.19	353.88	May 1, 85
Korea	10.50	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	Mar 29, 82
Philippines	6.69	6.30	8.05	12.11	11.32	11.33	n.a.	n.a.	n.a.	Feb, 85
Singapore	9.50	7.00	7.00	6.75	6.50	6.50	6.50	6.00	6.00	Apr 8, 85
Thailand	14.50	12.50	13.00	12.00	12.00	12.00	12.00	12.00	12.00	Nov, 84
Venezuela	14.00	13.00	11.00	11.00	11.00	11.00	10.00	10.00	10.00	Mar 85

Day-to-day money rates

monthly averages

	1981	1982	1983	1984				1985			
	Dec	Dec	Dec	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
United States	12.37	8.95	9.47	11.30	9.99	9.43	8.38	8.35	8.50	8.58	8.33
Canada	14.53	10.63	8.78	12.13	11.95	11.22	10.50	9.75	9.88	10.41	10.25
Austria	7.50	6.00	5.75	6.63	6.75	7.25	7.63	6.75	6.50	6.75	6.88
Belgium	12.45	9.29	7.39	8.68	9.43	10.07	9.12	9.22	8.99	9.13	9.85
Finland	11.30	11.50	16.70	16.10	15.75	15.48	15.07	14.57	14.18	14.00	13.96
France	15.46	12.88	12.27	11.36	11.04	11.18	10.95	10.56	10.64	10.67	10.48
Germany	10.58	6.15	5.61	5.55	5.61	5.51	5.62	5.52	5.78	5.86	5.71
Ireland	16.88	14.54	12.19	12.38	13.50	14.25	14.50	14.63	14.75	14.63	13.63
Italy	20.63	19.00	17.88	17.34	17.38	17.25	17.25	16.06	16.00	16.00	15.77
Netherlands	10.67	5.31	5.84	5.84	5.90	5.57	5.60	5.78	5.75	6.93	6.74
Norway	18.60	11.00	12.30	12.00	12.90	13.10	12.50	10.70	12.80	11.60	13.50
Spain	18.73	15.81	16.77	12.52	10.87	12.96	12.11	11.35	12.12	11.99	10.55
Sweden	13.95	9.31	11.52	13.48	12.56	11.64	11.88	10.58	13.50	13.50	13.50
Switzerland	3.38	1.25	1.88	2.50	2.00	1.50	1.50	2.63	1.75	2.50	2.00
United Kingdom	9.13	6.70	7.78	7.28	7.38	7.55	6.31	7.38	11.94	10.60	12.38
Australia	12.84	11.04	4.56	10.56	10.61	10.92	10.88	10.89	11.14	13.34	n.a.
Japan	6.70	6.92	6.44	6.32	6.15	6.10	6.41	6.17	6.16	6.42	6.07
South Africa	12.75	14.15	16.06	22.63	21.50	21.50	21.13	22.19	21.56	21.50	21.50
Argentina	84.93	155.32	178.30	194.56	215.99	215.99	215.99	226.61	226.61	247.63	288.80
Brazil	103.74	150.42	184.69	285.03	328.87	244.59	272.02	378.76	287.93	337.15	n.a.
Hong Kong	10.75	9.13	13.90	11.99	8.47	7.23	6.80	6.94	6.18	6.15	7.21
Korea	14.40	13.84	11.40	11.20	11.30	10.90	10.00	8.90	9.30	9.70	9.80
Philippines	14.70	16.12	31.18	34.29	40.09	32.17	15.22	23.15	19.80	27.80	n.a.
Singapore	3.96	11.45	7.05	8.16	7.54	6.29	6.01	5.40	6.07	5.30	4.69

Treasury bill rates

bond equivalent yields, at or near end of month

	1981	1982	1983	1984				1985			
	Dec	Dec	Dec	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
United States	11.90	8.15	9.28	10.64	9.69	8.71	7.99	7.83	8.67	8.42	8.08
Canada	14.41	9.80	9.71	12.02	11.46	10.50	9.84	9.50	11.27	10.40	9.77
Belgium	16.00	12.25	10.85	11.00	11.00	10.75	10.75	10.70	10.70	10.45	9.50
Ireland	18.13	15.25	12.01	13.12	13.24	14.80	15.10	14.59	14.54	13.77	12.62
Italy	21.36	19.11	16.95	15.40	15.30	14.90	14.69	13.75	13.46	13.38	n.a.
Netherlands	9.75	5.63	5.63	5.50	5.63	5.63	5.88	6.31	6.51	6.75	7.00
Spain	n.a.	15.28	14.46	8.91	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Sweden	n.a.	12.90	11.75	13.80	11.83	12.04	11.83	13.53	14.28	14.33	14.47
United Kingdom	15.34	9.96	9.04	10.23	10.13	9.27	9.33	11.89	13.90	12.76	12.26
Australia	13.27	9.39	8.54	9.60	10.75	10.98	12.27	12.22	13.51	14.82	14.72
Japan	5.42	5.42	4.91	4.91	4.91	4.91	4.91	4.91	4.91	4.91	4.91
New Zealand	11.25	11.25	7.80	7.80	13.50	13.50	13.50	17.50	17.45	19.50	23.40
South Africa	14.55	14.62	18.43	23.02	23.03	21.82	21.94	23.05	23.01	22.45	21.92
Brazil	92.62	115.40	179.15	269.00	273.03	273.03	273.03	273.03	273.03	273.03	n.a.
Mexico	33.23	57.44	53.78	49.48	47.77	47.68	49.18	48.07	49.30	56.47	57.69
Philippines	13.22	14.54	15.99	42.56	46.30	48.67	47.14	35.69	30.92	34.29	n.a.
Singapore	3.03	2.74	2.59	3.01	3.01	2.80	2.91	2.93	2.93	2.97	2.94

Representative money market rates

bond-equivalent yields on major short-term (mostly 3-4 month) money market instruments other than Treasury bills, at or near end of month

	1981	1982	1983	1984				1985			
	Dec	Dec	Dec	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
United States	12.78	8.81	9.75	10.94	9.59	8.84	8.22	8.06	9.05	8.81	8.27
Canada	15.25	9.95	9.87	12.25	11.80	10.80	10.10	9.65	11.80	10.55	10.20
Belgium	16.00	12.35	11.00	11.00	11.00	10.75	10.70	10.75	10.70	10.45	10.10
France	15.25	12.75	12.19	10.94	10.18	10.56	10.69	10.31	10.69	10.63	10.31
Germany	10.50	6.20	6.30	6.05	6.05	5.80	5.75	5.85	6.25	6.20	5.90
Ireland	18.50	15.75	12.19	13.06	13.75	15.38	15.13	14.63	14.75	13.75	12.75
Italy	21.00	19.00	17.88	17.25	17.25	17.25	17.25	16.00	16.13	15.75	15.25
Netherlands	11.00	5.25	6.00	6.19	6.06	5.94	5.75	6.50	7.19	6.88	7.13
Portugal	13.80	15.05	24.11	24.60	24.52	24.51	24.57	24.57	24.53	24.61	n.a.
Spain	15.52	16.55	18.48	12.86	12.54	12.95	12.13	12.27	12.22	12.15	12.34
Switzerland	10.12	3.88	3.88	5.38	5.25	5.00	5.00	5.63	6.13	5.75	5.38
United Kingdom	15.69	10.50	9.31	10.69	10.88	9.69	9.88	12.50	13.88	13.06	12.56
Australia	16.00	10.65	9.50	11.30	11.30	11.75	12.50	13.55	14.60	15.60	15.70
Japan	6.30	6.80	6.42	6.32	6.30	6.30	6.29	6.26	6.32	6.27	6.25
New Zealand	16.05	16.75	12.10	16.75	16.25	15.25	15.25	18.75	22.75	25.00	23.50
South Africa	15.47	15.26	19.12	23.56	23.56	22.11	22.78	24.07	24.12	23.50	22.09
Chile	34.54	71.44	22.42	39.29	52.87	56.45	22.42	22.42	34.49	n.a.	45.93
Hong Kong	14.18	10.13	12.84	12.78	10.13	8.76	8.26	7.85	7.64	8.28	7.35
Indonesia	14.48	18.50	19.50	21.00	20.00	19.00	19.00	19.00	20.50	22.00	19.00
Korea	15.69	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
Malaysia	9.50	8.50	9.80	10.30	15.00	10.00	10.30	9.50	9.30	10.01	9.50
Philippines	17.70	15.96	15.61	19.54	31.23	38.67	33.21	29.38	26.95	24.73	n.a.
Singapore	7.81	8.69	8.44	8.81	7.38	6.69	7.00	6.03	6.44	6.06	5.31
Taiwan	10.94	9.94	7.65	7.27	5.17	6.17	8.07	6.78	9.14	7.76	n.a.
Thailand	14.29	12.25	16.00	14.50	14.00	12.00	12.00	14.00	17.75	16.50	16.00

Commercial bank deposit rates

at or near end of month

	1981	1982	1983	1984				1985			
	Dec	Dec	Dec	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
United States	12.62	8.25	9.70	10.95	9.95	8.85	8.35	8.06	9.22	8.90	8.25
Canada	15.20	9.85	9.82	12.20	11.75	10.75	10.05	9.60	11.75	10.50	10.15
Austria	9.63	6.25	6.50	7.06	7.38	7.63	7.50	6.94	6.88	6.88	6.88
Belgium	15.50	12.25	11.25	10.88	10.75	10.63	10.63	10.75	10.87	10.25	9.50
Denmark	10.00	9.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Finland	5.00	4.25	5.25	5.25	5.25	5.25	5.25	5.25	4.75	4.75	4.75
France	9.16	8.24	7.66	7.30	7.08	7.14	7.04	6.85	6.90	6.90	6.82
Germany	9.50	6.00	5.90	5.30	5.40	5.30	5.25	5.35	5.55	5.70	5.45
Ireland	18.38	15.25	11.75	12.75	13.25	14.75	14.63	14.25	14.25	13.50	12.00
Italy	13.25	13.25	13.25	11.64	11.64	11.64	11.64	11.00	11.00	10.96	10.96
Netherlands	11.00	5.38	6.13	6.13	6.00	5.81	5.69	6.38	7.06	6.81	7.00
Norway	12.75	13.50	12.75	12.75	12.75	12.75	12.75	12.25	13.00	12.75	12.75
Portugal	14.00	15.00	21.50	28.00	28.00	28.00	27.00	27.00	27.00	n.a.	n.a.
Spain	11.78	12.53	12.62	12.18	11.76	11.67	11.64	11.34	11.02	10.80	n.a.
Sweden	12.65	12.15	11.70	13.45	11.50	11.50	11.45	13.10	13.65	13.70	13.77
Switzerland	8.75	3.00	3.50	4.88	4.75	4.63	4.50	5.00	5.75	5.25	4.88
United Kingdom	15.69	10.31	9.31	10.63	10.44	9.75	9.88	13.13	13.75	13.00	12.50
Australia	15.65	10.20	10.40	10.68	11.22	11.46	12.75	13.78	13.82	14.95	15.55
Japan	6.50	7.00	6.50	6.42	6.42	6.43	6.38	6.42	6.50	6.36	6.36
New Zealand	15.50	16.50	11.50	15.25	15.00	15.50	15.25	17.00	18.75	20.00	23.00
South Africa	14.75	15.25	20.13	23.50	23.58	22.00	22.88	24.13	23.75	23.63	22.25
Argentina	86.76	103.42	176.41	270.00	320.00	285.00	380.00	285.00	280.00	315.00	360.00
Brazil	110.05	21.00	23.00	27.00	26.00	26.50	27.00	26.00	25.50	26.50	n.a.
Chile	36.87	57.72	22.28	15.39	58.81	66.31	22.42	21.84	34.33	n.a.	45.49
Hong Kong	12.50	7.50	9.00	9.50	8.00	7.50	7.00	5.50	5.50	5.00	4.50
Korea	14.40	7.60	7.60	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Malaysia	10.00	8.40	7.75	9.37	10.08	10.02	9.58	9.50	9.50	9.66	9.42
Mexico	31.82	52.54	57.15	49.46	47.63	47.45	47.45	47.45	47.45	51.89	54.50
Philippines	13.35	14.10	14.96	23.36	29.37	32.47	31.01	27.07	24.36	22.12	n.a.
Singapore	7.50	8.25	7.44	8.19	7.01	6.19	6.13	5.44	6.01	5.82	5.01
Taiwan	10.75	7.50	7.00	6.75	6.75	6.50	6.50	6.50	6.50	6.25	6.25
Thailand	10.00	10.00	10.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	16.00
Venezuela	14.75	15.50	12.00	12.00	13.00	13.00	12.50	12.00	13.00	11.50	11.50

Domestic government bond yields

long-term issues, at or near end of month

	1981	1982	1983	1984				1985			
	Dec	Dec	Dec	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
United States	14.33	10.61	12.00	12.32	11.86	11.64	11.61	11.28	12.09	11.92	11.64
Canada	15.27	11.69	12.02	12.63	12.18	11.81	11.66	11.38	12.30	11.93	11.50
Austria	10.37	8.81	8.02	8.09	8.10	8.07	8.04	8.00	8.00	8.06	8.06
Belgium	13.99	12.66	11.89	11.85	11.74	11.47	11.56	11.56	11.58	11.50	11.49
Denmark	20.91	20.14	12.96	15.30	14.63	14.92	14.60	13.66	13.74	13.33	12.87
Finland	10.98	10.64	11.16	10.87	10.85	10.84	10.73	10.84	10.91	10.39	10.34
France	16.[illegible]4	15.40	13.96	13.05	12.02	12.36	12.70	12.12	12.25	12.27	11.98
Germany	9.71	7.90	8.38	7.83	7.53	7.20	7.17	7.35	7.71	7.44	7.30
Ireland	18.28	14.54	14.25	14.98	14.99	15.25	14.90	14.57	14.74	13.55	13.08
Italy	21.39	19.70	17.69	15.58	15.32	15.23	14.52	13.22	13.10	13.51	n.a.
Netherlands	11.28	8.16	8.58	8.26	7.94	7.65	7.72	7.42	7.93	8.06	7.73
Norway	12.37	13.32	12.50	12.00	12.00	12.00	12.00	12.50	12.00	12.38	12.38
Portugal	17.39	16.63	22.11	21.05	20.84	21.21	22.23	20.34	20.69	n.a.	n.a.
Spain	16.20	15.92	18.71	16.38	15.49	14.96	13.93	n.a.	n.a.	n.a.	n.a.
Sweden	12.80	13.01	12.30	12.98	12.34	12.16	12.04	12.39	13.23	12.93	13.42
Switzerland	5.40	4.22	4.54	4.81	4.89	4.77	4.78	4.74	4.91	4.88	4.81
United Kingdom	15.02	10.62	9.94	10.18	10.19	9.96	10.25	10.65	10.56	10.34	10.42
Australia	15.00	13.00	13.65	13.50	13.30	13.30	13.40	13.12	13.70	13.85	14.05
Japan	8.11	7.96	7.45	7.37	7.11	6.61	6.36	6.37	7.19	6.97	6.70
New Zealand	12.55	12.84	10.50	15.31	16.65	16.60	16.90	17.09	17.35	17.60	18.35
South Africa	13.33	11.31	13.64	16.44	16.80	15.90	16.55	17.25	17.85	16.85	16.40
Philippines	13.01	13.64	14.47	38.67	27.31	34.77	18.54	21.15	24.20	n.a.	n.a.
Venezuela	12.50	15.00	13.50	14.00	14.50	14.50	14.00	13.00	13.50	13.00	12.50

Commercial bank lending rates to prime borrowers

at or near end of month

	1981	1982	1983	1984				1985			
	Dec	Dec	Dec	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
United States	15.75	11.50	11.00	12.75	12.00	11.25	10.75	10.50	10.50	10.50	10.50
Canada	17.25	12.50	11.00	13.00	12.50	12.00	11.25	11.00	11.50	11.75	10.75
Austria	13.50	11.75	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25
Belgium	18.00	15.50	13.75	14.25	14.00	14.00	14.00	14.00	14.00	14.00	13.50
Denmark	15.00	14.00	10.00	10.00	10.00	10.50	10.50	10.50	10.50	11.00	10.50
Finland	9.84	8.95	10.18	10.56	10.55	10.63	10.68	10.69	10.30	10.36	n.a.
France	14.00	12.25	12.25	12.00	12.00	12.00	12.00	11.50	11.50	11.50	11.50
Germany	13.00	8.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75
Ireland	17.25	16.50	13.75	13.75	13.75	13.75	15.75	15.75	15.75	15.75	14.50
Italy	22.50	20.75	18.75	18.00	18.00	18.00	18.00	17.00	17.00	17.00	17.00
Netherlands	12.00	6.25	7.00	6.50	6.50	6.50	6.25	6.75	7.75	7.50	7.13
Norway	13.75	14.50	13.50	13.00	13.25	13.00	13.00	11.50	12.88	12.50	12.50
Portugal	20.50	23.50	30.00	29.00	29.00	29.00	29.00	29.00	29.00	29.00	n.a.
Spain	17.04	19.00	20.85	14.36	14.11	14.29	13.68	13.73	13.71	13.57	13.75
Sweden	15.00	15.00	13.50	14.50	14.50	14.50	14.50	14.50	14.50	14.50	14.50
Switzerland	8.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
United Kingdom	14.50	10.00	9.00	10.50	10.50	9.50	9.50	12.00	14.00	13.00	12.50
Australia	15.75	15.00	12.75	13.00	13.00	13.00	13.50	14.25	14.75	16.00	16.50
Japan	6.95	6.28	5.89	5.72	5.71	5.71	5.70	5.70	5.70	5.70	5.70
New Zealand	13.00	13.00	11.00	12.50	13.50	14.00	14.00	14.00	15.00	17.00	n.a.
South Africa	17.00	18.00	20.00	25.00	25.00	23.50	24.00	25.00	25.00	25.00	25.00
Argentina	92.60	109.50	188.58	280.00	330.00	295.00	390.00	295.00	290.00	325.00	395.00
Brazil	152.40	23.81	24.00	32.00	30.00	30.50	31.00	30.00	29.50	30.50	n.a.
Chile	61.43	85.19	35.11	35.58	78.75	95.33	79.56	58.04	58.40	n.a.	63.93
Hong Kong	16.00	10.50	13.50	14.00	12.00	11.50	11.00	10.00	10.00	9.50	9.00
Indonesia	19.25	22.00	19.75	31.50	26.00	23.50	23.50	22.50	22.50	23.50	23.00
Korea	16.50	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Malaysia	12.00	12.50	11.00	11.50	12.00	12.00	12.00	12.00	12.00	12.00	12.00
Mexico	31.81	46.12	56.44	50.60	49.34	48.31	47.54	47.17	47.33	49.36	51.93
Philippines	18.00	18.00	18.00	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Singapore	11.83	9.33	8.98	10.33	10.33	9.88	9.40	9.08	9.03	9.03	8.73
Taiwan	15.25	10.75	10.25	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Thailand	17.00	16.00	16.00	17.00	17.00	16.50	16.50	16.50	16.50	17.00	17.00
Venezuela	15.50	17.00	16.00	15.00	15.00	16.00	16.00	15.00	15.00	14.00	13.50

Domestic corporate bond yields

long-term issues, at or near end of month

	1981	1982	1983	1984				1985			
	Dec	Dec	Dec	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
United States	15.50	11.75	12.63	12.88	12.63	12.37	12.25	12.00	13.00	12.50	12.38
Canada	16.18	12.74	12.89	13.33	12.90	12.62	12.42	12.08	12.95	12.46	12.24
France	17.33	15.91	14.06	13.77	12.84	12.58	12.14	12.40	12.16	12.16	12.46
Germany	10.50	8.20	8.30	7.70	7.60	7.30	7.20	7.20	7.20	7.30	7.30
Netherlands	11.03	7.80	8.51	8.21	7.77	7.61	7.51	7.33	8.00	8.22	7.87
Norway	13.36	14.13	13.25	12.75	12.75	12.75	12.75	12.75	12.75	13.25	13.25
Spain	14.76	17.10	19.84	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Sweden	12.94	13.37	12.21	13.18	13.19	13.21	12.33	12.34	12.67	13.31	13.19
Switzerland	n.a.	5.80	4.92	5.09	5.17	5.09	5.09	5.06	5.16	5.24	5.14
United Kingdom	16.55	12.34	11.57	11.74	11.79	11.45	11.64	12.06	11.98	11.55	11.56
Japan	7.70	7.55	7.09	6.98	6.99	6.51	6.21	6.46	6.98	6.93	6.82
Korea	26.90	16.00	14.20	14.60	14.60	14.90	15.00	14.70	14.70	14.70	14.60
Venezuela	17.00	18.00	18.00	18.00	19.00	18.00	18.00	18.00	18.00	18.00	17.00

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World Financial Markets

Morgan Guaranty Trust Company of New York

June 1985

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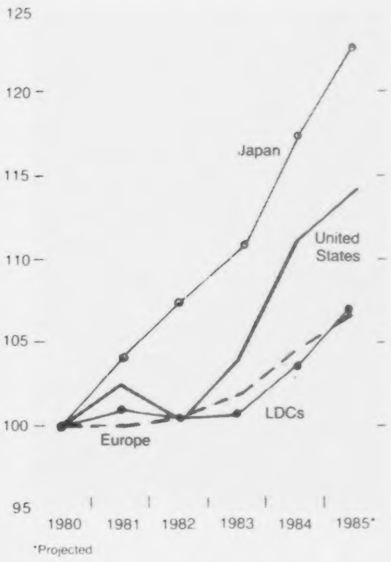
Chart 1
Real GNP
index numbers 1980 = 100



*Projected

Crossroads Europe

Pressures are building on Europe's policymakers to modify their strategy for economic recovery. Opinion polls and election results are sending an insistent message: joblessness cannot be tolerated without limit in the pursuit of structural adjustment or the definitive elimination of inflation. Policymakers also must cope with the U.S. economic slowdown. Exports to the United States can no longer be counted on to underwrite further recovery in Europe: indeed, they are virtually bound to become a drag on the European economy as the inevitable correction of the U.S. trade deficit gets under way. Already, Europe's recovery seems to have stumbled: Germany's real GNP was down in the first quarter of 1985 and French output showed no gain. Of the major countries, only Britain has reported continuing growth.

Something has to be done — and done soon — to remedy the stagnation in Europe's domestic demand. That stagnation has been aggravated not only by bad weather, but also by Europe's policies. To be sure, the policies have a number of successes to their credit: inflation is much lower than just a few years ago; business profitability has improved; government borrowing has been contained; industrial output is up; and most countries that formerly ran current account deficits now enjoy surpluses.

However, by U.S. or Asian standards, Europe's recovery from the recession of the early 1980s has been woefully slow and incomplete (see Chart 1). Control of inflation has been the top priority in Europe. Economic growth is being fostered by structural adjustments designed to increase labor market flexibility, encourage innovative small and medium-sized industries, privatize functions ill-suited to the public sector, and curb budget deficits so as to lower interest rates and boost investment. Such reforms are naturally slow to yield positive employment results. Thus, Europe's total job count is no higher today than in 1970, whereas the U.S. economy has added 30 million jobs. European job opportunities have expanded some during the past year or so, but not enough to reduce unemployment (see Chart 2).

The outlook for Europe's jobless is further dimmed by the uncertain course of the U.S. economy, Europe's key export market. U.S. real GNP growth has been just 2.3% over the past four quarters. U.S. domestic demand has been somewhat stronger, rising 3.4% and keeping imports at a high level. At the same

Chart 2

Unemployment

as percent of labor force

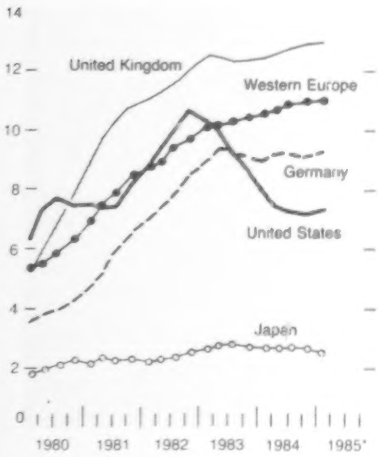
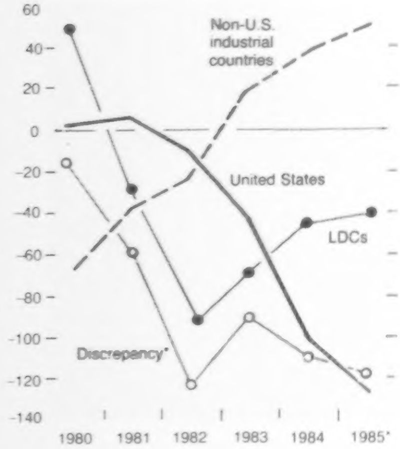


Chart 3

Current account balances

in billions of dollars



* World current account discrepancy equals total recorded positions for the United States, other industrial countries, and LDCs. Implicitly, it includes the positions of China, Eastern Europe, and the Soviet Union.

time exports have fallen, ballooning the U.S. foreign trade deficit to an annual rate of $134 billion for the first four months of 1985.

Correction of the trade deficit now is moving higher on the list of U.S. priorities, not so much because the deficit implies dangerous dependence on continued inflows of foreign capital, but because it is cutting the output, employment, and profits of key segments of U.S. agriculture, mining, and manufacturing. The resulting groundswell of U.S. protectionism is unparalleled in the postwar period. Its dire potential consequences for the world economy at large, and for LDCs in particular, can be held in check only by measures that narrow the deficit while keeping up the momentum of economic recovery among industrial countries as a group. As yet, this paramount global challenge is not being taken up. Even as the U.S. economy slows, the evidence points to simultaneous slowing in Japan and Europe.

Equally disquieting, Japan and Europe are reluctant to accept the erosion of their present trade surpluses that is the inescapable counterpart of reduction in the U.S. trade and current account deficits (see Chart 3). Over a period of time the trade deficit needs to be brought down by as much as $100 billion per annum. Lower oil prices may shift some part onto OPEC's shoulders. Some Asian LDCs also could get by with less favorable trade positions. However, for several years ahead, most developing countries have little such leeway. The main burden must necessarily fall on Japan and Europe, however much this may offend mercantilist values.

Thus, Europe's job strategy now must contend with a new adjustment imperative. The external stimulus from the U.S. economy is being thrown into reverse. True, Europe's consumption and investment may gain if the United States puts its fiscal house in order and the dollar and European interest rates come down. However, neither may come down much as U.S. interest rates fall, to judge from recent experience. Moreover, as the OECD questions in its latest *Economic Outlook*, there can be no presumption that the terms-of-trade and interest-rate boost to Europe's domestic demand will outweigh the loss of net exports. Indeed, the likelihood has to be faced that the present European emphasis on microeconomic supply-side initiatives, while certainly much needed, cannot alone solve the unemployment problem.

Appropriate demand management is the crucial dimension currently missing in Europe's strategy. Fiscal consolidation has been important, but should hardly be pressed forward without regard for circumstances or results. After all, demand adequacy is not guaranteed merely by lower interest rates, as the 1930s' experience should have taught for all time. Thus, in Germany and other countries where inflation is subdued and fiscal consolidation today is far advanced, the surest way to boost demand lies in relaxation of the fiscal stance by tax cuts. Where inflation trends are troublesome — as in Britain — or fiscal deficits still are large — as in the Netherlands — any such relaxation has to be approached more cautiously. For them, the prudent course may run through tax cuts financed by the sale of public-sector assets or through the enhanced incentives to the private sector that balanced reductions in the burden of taxation and public spending could provide.

Unless Europe overhauls its policy approach along these lines, U.S. action to remedy its own trade problems risks setting the world economy on a dangerously deflationary course. The risk would escalate were Japan also to reject policies

Table 1

*General government financial balances**

percent of GNP

	1985**	Changes since 1982*** Actual	 Structural
United States	—3.7	0.1	—2.0
Japan	—1.4	2.2	2.1
Germany	—1.5	1.9	2.1
France	—3.2	—0.5	1.5
United Kingdom	—3.6	—1.3	—1.7
Italy	—13.1	—0.5	1.5
Belgium	—10.3	2.3	2.6
Denmark	—3.0	6.3	3.6
Netherlands	—5.6	1.4	0.3
Spain	—4.5	0.8	1.1
Sweden	—3.0	3.3	1.9

*Consolidation of public-sector balances at all levels of government, including social security but before asset sales and excluding state-owned commercial enterprises.

**Positive number indicates surplus.

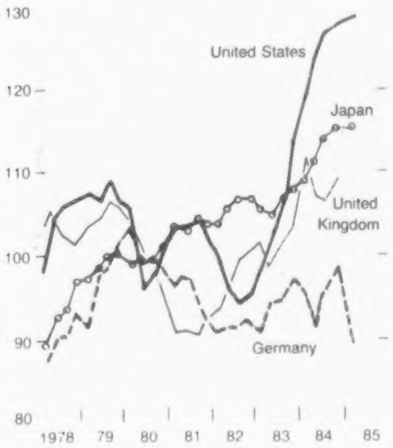
***Positive number indicates change toward restriction.

Source: OECD.

Chart 4

Real investment

gross fixed capital formation
index numbers 1980 = 100



that expand domestic demand. And the risk would compound yet more if Japan and Europe procrastinate further on substantive measures to open their internal and external markets to U.S. and other competitors. Such procrastination would be the ally of U.S. protectionism, multiplying the probability of stepped-up U.S. controls on both trade and international investment. To forestall that danger, it is vital that pending U.S. fiscal restraint be matched by constructive policies in Japan and Europe, including reassessment of the present macroeconomic policy mix. This is very much a matter of collective international responsibility on the part of the United States, Japan, and Europe — for their own benefit as well as for economic progress in the developing world. For Europe itself, modifying the mix is the only promising way to sustain hard-won supply-side progress and to brighten the outlook for its 20 million jobless.

Europe's economic policies

Whether from shared philosophy or mutual necessity, most European governments have embraced three main principles of economic management since the second oil shock: first, structural adjustment to boost general economic efficiency, international competitiveness, and productive employment; second, reduction of budget deficits to assist monetary control and to limit public-sector preemption of economic resources; and third, monetary discipline of inflation to afford a stable environment for business investment.

These priorities were born of the 1970s' disappointment with policies for social welfare provision and the maintenance of full employment — in the private sector by regulation and subsidy; in the public sector at almost any budgetary cost. Although the welfare state and public-sector employment duly expanded, the overall growth of output and productivity deteriorated, private investment dwindled, and net job creation fell short of expansion in the work force. Subsidies and transfer payments led to a rapid buildup of public debt, contributing to either the reality of inflation, or its potential.

Europe's structural adjustments since the second oil shock have been considerable, though hardly exhaustive. The growth of transfer payments and other social spending has been held down in some degree; and a more realistic assessment of the international competitiveness of Europe's traditional industries has taken hold. Much outmoded capacity has been eliminated, with substantial cuts in public subsidies to the sectors concerned. But there still is far to go. Agricultural subsidies have yet to be tackled in any meaningful way. Meanwhile, overall budgetary savings are lessened by stepped-up subsidies to firms representing themselves as "high-tech" national champions. Newly fashionable "small" and "mid-sized" enterprises also are beginning to enjoy such largess.

On the employment front, Europe has made a start on reforms that promote employers' flexibility and the smoother functioning of labor markets. The 1984 agreement to cut the workweek gave German employers permission to structure their labor use more efficiently. With varying degrees of union support, many European countries are moving the same way, and also are making it somewhat easier for employers to lay off workers and to use part-time help. These changes should improve job prospects in the longer term by reducing the existing incentives for employers to minimize payrolls. Too often, at present, any increase in sales is met by more intensive use of existing labor, or

Table 2

Three-month Eurocurrency interest rates

percent per annum

	June 21, 1985	Changes since June 1984
Dollar	7.7	—4.4
Japanese yen	6.2	0.0
German mark	5.5	—0.4
French franc	10.4	—1.9
British pound	12.5	3.1
Italian lira	13.8	—1.5
Belgian franc	8.7	—2.8
Dutch guilder	6.6	0.5

Table 3

Consumer prices

percent changes, Dec-Dec

	1980	1984	1985
United States	12.4	4.0	3.5
Japan	7.0	2.8	2.3
Germany	5.5	2.0	2.3
France	13.9	6.7	6.0
United Kingdom	15.1	4.6	5.5
Italy	21.3	9.4	8.0
Belgium	7.5	5.4	5.0
Denmark	10.9	5.6	4.0
Netherlands	6.7	2.8	2.9
Spain	15.3	9.0	9.0
Sweden	14.0	8.2	6.5

Table 4

Export and import prices and the dollar

	Percent changes, 1983 Dec-1984 Dec		
	Export prices*	Import prices*	Dollar exchange rate
United States	—0.6	0.2	—
Japan	—1.1	0.0	5.7
Germany	2.3	4.5	12.9
France	9.9	10.5	13.4
United Kingdom	9.4	11.4	20.9
Italy	6.9	8.0	14.7
Belgium	5.4	8.0	11.5
Denmark	4.3	4.9	11.8
Netherlands	4.8	2.4	13.5
Spain	9.6	0.0	8.8
Sweden	7.1	4.5	9.9

*In local currency.

else is foregone altogether because of the risk of being saddled with excess labor in the event that sales subside. Flexibility would encourage hiring to meet sales demands of uncertain permanence in a changing world market place. The financial deregulation now under way in Europe also should be helpful: small innovative firms should find it easier to fund expansion of their operations. U.S. experience strongly suggests that such small enterprises, provided they are genuinely unfettered and not cossetted by bureaucratic "promotion," are a more promising source of net job creation than are large firms or the public sector.

In fiscal affairs, Europe has done much to correct the excesses of the 1970s. Some countries — such as Britain, Germany, and Denmark — have greatly reduced their deficits by any yardstick. Virtually all European countries are now reducing deficits as measured by cyclically adjusted "structural" budget balances (see Table 1). Britain embarked on a severe fiscal squeeze after 1979, tightening policy four years in a row before easing considerably in 1983. Germany delayed the launch of its fiscal consolidation until 1982. Three years later, with its structural balance now in substantial surplus, Germany still has not eased up — and, if hard-line views prevail, will ease only slightly through 1988. Elsewhere in Europe, most countries judge further fiscal consolidation necessary because their deficits remain large.

Throughout Europe, below-trend economic growth in the 1980s has depressed government revenues at unchanged tax rates, while rising unemployment has pushed up spending. Getting spending down again, as a share of GNP, is proving exceedingly difficult. Consequently, deficit reduction has required increased tax rates, bracket creep, or other revenue enhancements — measures at odds with Europe's supply-side ambitions from a growth point of view. This is a conflict recognized and regretted by most European governments. Another conflict — less generally accepted, indeed vehemently rejected by some — lies between deficit reduction and the sustenance of consumption or investment demand.

Fiscal consolidation has provided a clear gain for Europe in managing monetary policy. The payoff in terms of reduced inflation has been impressive, although the U.S. counterexample demonstrates that effective inflation control is entirely possible without such consolidation. Nor has Europe's fiscal consolidation fulfilled official expectations as a stimulus to business investment. Investment has recovered considerably from its cyclical lows in most European countries, but has grown much less than in the United States and is no higher than the levels attained in Europe prior to the second oil shock (see Chart 4). The problem is that investment activity depends on prospective real profits after tax. Interest rates are one determinant in the prospective profit assessment, but appear less important than the nexus of confidence, managerial flexibility, the tax regime, and the state of demand. On these four counts Europe has not rated well in recent years compared with either the United States or its own previous postwar record, especially concerning the state of demand.

Nonetheless, official opinion in Europe typically insists that all would be well were real interest rates to revert to a normal level, allegedly about 3%. The key obstacle is said to be the strength of the dollar. As European officials see it, this has threatened imported inflation in Europe, obliging the authorities to maintain domestic interest rates higher than they would otherwise be

Table 5

Real effective exchange rates

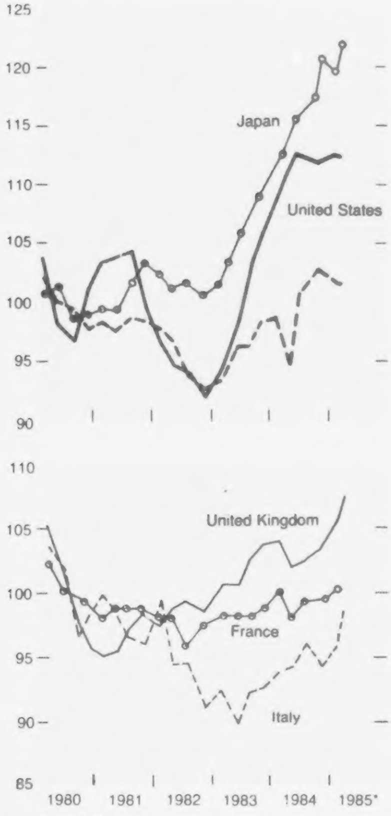
	*June 21, 1985**	*Percent change since April 1983*
United States	122.0	10.3
Japan	92.5	—3.8
Germany	93.9	—7.1
France	99.0	2.5
United Kingdom	97.0	6.8
Italy	104.0	3.7
Belgium	89.1	—4.3
Denmark	97.7	—3.3
Netherlands	93.6	—8.2
Spain	98.6	7.6
Sweden	101.2	12.8

*1980-1982=100.

Chart 5

Industrial production

index numbers 1980 = 100



*Projected

and, in consequence, depressing investment. In addition, it is claimed, because those domestic rates have generally not been as high in real terms as in the United States, savings have drained out of Europe to help finance the U.S. current account deficit, depriving Europe of the wherewithal to invest at home.

However, this contention ignores the preference, especially evident among German and British officials, for moderate economic growth of the magnitude that has, in fact, been achieved over the past few years. Their monetary targets have generally been met with a fair degree of precision. Had high U.S. interest rates, or a perceived need to prevent further depreciation of European currencies, entailed significantly tighter monetary policies than originally intended, monetary growth would have run distinctly below target. This has not typically been the case. Still less has there been any major or sustained shortfall below the midpoint of target ranges, ostensibly the best estimate of appropriate monetary growth. For example, Germany's central bank money grew 4.6% in 1984, against a target range of 4%-6%, and continues close to the top of its present 3%-5% target. In Britain, sterling M3 shows 12% growth over the latest 12-month period, against a current target range of 5% to 9%. Concern for monetary discipline has joined with the still-strong dollar to inhibit interest rate declines in Europe commensurate with the steep downturn of U.S. rates this past year (see Table 2).

In fact, the strong dollar and superior U.S. economic performance have inspired a boom in Europe's exports and business profits since the recession. The risk now is that this external prop to Europe's recovery will be knocked away, with inadequate domestic replacement forthcoming.

Prices and profits in Europe

The most constructive feature of Europe's economic performance since the second oil shock has been the decline in inflation. Several countries that exhibited rapid inflation in the 1970s, and even as recently as 1983 — France and Italy, for example — are now recording much better price figures (see Table 3). Countries with a strong anti-inflationary tradition have substantially held on to, or have bettered, past performance. Only in the United Kingdom has inflation accelerated materially above its cyclical low of 3.7%, to a current rate of 7%. The recovery of sterling and stiff U.K. interest rates since last February should lower Britain's inflation later this year.

The reduction of inflation in Europe has been achieved in the face of major depreciation of European currencies vis-à-vis the dollar and the yen. Weakness in world commodity prices in dollar terms has caused Europe's import prices to rise much less than the appreciation of the dollar alone would suggest (see Table 4). Quite as important, nominal wage increases have slowed under the stress of unemployment and, particularly in higher inflation countries, through the weakening of wage indexation. Fortunately, the decline in general price inflation in Europe has not squeezed business profits: the strength of Europe's exports has allowed a faster increase in export prices than in domestic prices. Indeed, across Europe, profits have surged. In Germany, for example, business profits rose from just over 20% of GNP in 1982 to over 23% by late last year.

Principally responsible was the dramatic decline in the inflation of unit labor costs during the last recession. Germany's unit labor costs in manufacturing were rising by over 11% late in 1980 on a 12-month

Table 6

Sources of real GNP growth in 1984

	Percent change	Change as percent of 1983 GNP	
		Domestic demand	External demand
United States	6.8	8.6	—1.8
Japan	5.7	3.7	2.0
Germany	2.6	1.6	1.0
France	1.6	0.5	1.1
United Kingdom	2.3	2.8	—0.5
Italy	2.6	2.8	—0.2
Belgium	2.2	1.1	1.1
Denmark	4.0	4.6	—0.6
Netherlands	2.2	2.1	0.1
Spain	2.2	—0.9	3.1
Sweden	3.5	2.9	0.6

Table 7

Exports to the United States

derived from U.S. import data, CIF valuation percent changes in dollar values from corresponding periods one year earlier

	Jan-Dec 1984	Jan-Apr 1985
Japan	38.6	28.9
Germany	34.6	12.3
France	35.0	14.5
United Kingdom	16.6	—9.6
Italy	46.0	21.4
Belgium	31.0	—5.8
Denmark	34.8	25.8
Netherlands	37.5	—11.7
Spain	55.9	—13.2
Sweden	34.4	24.5
All countries	26.4	4.9

Table 8

Current account balances

billions of dollars

	1980	1984	1985
United States	1.9	—101.6	—127.0
Japan	—10.7	35.0	45.0
Germany	—15.8	6.2	9.0
France	—4.2	0.0	0.0
United Kingdom	8.1	0.0	1.0
Italy	—9.8	—2.4	—3.0
Belgium	—4.9	—0.9	—1.0
Denmark	—2.4	—1.6	—1.6
Netherlands	—2.6	4.9	6.0
Spain	—5.2	2.1	1.5
Sweden	—4.5	0.1	—0.5

basis, but have actually been falling since the second half of 1983. Subdued cost inflation has persisted in most countries despite the moderate pickup in output. Britain is the main exception. U.K. unit labor costs were up nearly 6% in the first quarter of this year, a sharp acceleration from the 2% increase recorded in 1983. That low figure greatly benefited from fast-rising productivity. Although productivity gains have now slowed down in Britain, they continue to contribute significantly to the general slowing of unit labor costs in Europe. Unfortunately, the increase in labor productivity and recovery of profits have come about with stagnating employment at relatively high wage levels rather than expanding employment at more moderate wages. Still, the lower level of most European wage settlements, in both nominal and real terms, is a healthy development.

Europe's output recovery

The recovery in European output has been less than spectacular. By and large, the key German economy has followed the U.S. cycle quite closely, but in relatively subdued fashion. Tax incentives for business investment helped propel Germany out of recession toward the end of 1982. Economic growth continued at a fair pace until the spring of 1984, when labor disputes over a shorter workweek sharply curtailed industrial output, especially in the automobile industry. Industrial production bounced back in the third quarter and strengthened further in the last months of 1984. By that time, Germany's industrial output stood 11% higher than at the end of the recession in 1982. Still, that was no great recovery compared with the 21% run-up in the United States or the 20% gain in Japan (see Chart 5). Moreover, including construction, German industrial production during January-April 1985 slipped below the level of the previous four months.

Other Continental European economies have been much influenced by events in Germany. For example, the labor strikes in Germany slowed activity in the automobile sector throughout Europe because of the high interdependency among factories. Economic growth has been further held down in some countries by austerity packages designed to reduce current account deficits or limit the growth of public-sector budget deficits. In France, for example, industrial output showed virtually no increase from late 1983 through fourth-quarter 1984. In Belgium, it rose just 3.5%

In other countries, such as Denmark, the Netherlands, and Sweden — and also, until last October, Italy — output growth has been somewhat stronger. But wherever it has materially exceeded the growth of the linchpin German economy, there have been consequences for external trade balances. Moreover, with no realignment of EMS currency relationships since March 1983, real exchange rates have appreciated in the high inflation countries despite the strength of the dollar (see Table 5). Such appreciation is now beginning to curtail their exports to other European markets and to increase their imports. Currency realignment would be a partial corrective, but not the best solution. German economic growth has to accelerate appreciably if most European countries are to attain growth at the higher pace necessary to sustain employment with acceptable external balances.

In the United Kingdom, the initial revival of domestic demand following the recession owed much to a fall in personal savings encouraged by the drop in inflation. Subsequently, however, planned and un-

Table 9

Real GDP

percent changes

	1983	1984	1985
United States	3.7	6.8	2.9
Japan	3.4	5.7	4.5
Germany	1.3	2.6	2.4
France	0.7	1.6	1.6
United Kingdom	3.2	2.3	3.0
Italy	—1.2	2.9	2.2
Belgium	0.5	2.2	1.9
Denmark	2.5	4.0	2.5
Netherlands	0.8	1.7	2.0
Spain	2.0	2.2	2.0
Sweden	2.3	3.0	2.3

Table 10

Illustrative counterparts of U.S. current account adjustment

	Current account balances, $ billion			
		1989		
	1985	*Case 1*	*Case 2*	*Case 3*
United States	—127	—130	—120	—60
Other industrial countries	50	80	60	5
Japan	42	60	55	20
Europe	14	30	10	—12
France	0	—2	—1	—1
Germany	9	24	10	—8
Italy	—3	—2	—1	—1
United Kingdom	1	—3	—2	—1
LDCs	—40	—60	—50	—55
OPEC	—13	—30	—25	—20
Non-OPEC	—27	—30	—25	—35
*Discrepancy**	—117	—110	—110	—110

*World current account discrepancy equals total of recorded positions of United States, other industrial countries, and LDCs. Implicitly it includes the positions of China, Eastern Europe, and the Soviet Union.

planned relaxation of macroeconomic policies has played a key role in sustaining the recovery. At least until recently, the U.K. authorities have been willing to foster strong monetary growth. They also provided considerable fiscal stimulus in 1983 and 1984. In addition, external demand has been shored up by sterling's depreciation since 1981. Thus, despite the miners' strike and cold weather this past winter, U.K. economic activity proceeded at a healthy pace. Export orders strengthened and domestic activity held up well. It is this persistent strength in domestic demand that most distinguishes U.K. experience from that of Germany.

For Europe as a whole, exports were already a principal factor in growth during 1984 (see Table 6). They have taken over yet more of the driver's function in recent months. Export growth to the United States has been particularly strong (see Table 7), helping many European economies into equilibrium or surplus in their external accounts (see Table 8). Recent statistics show that exports continue strong. For example, in Germany during the first four months of 1985 the volume of foreign manufactures orders rose 4.6% over late-1984 levels, marking up a 12-month increase of 13%.

By contrast, domestic demand is stagnant across much of Continental Europe. Germany's domestic manufactures orders were almost flat in the first part of 1985 in comparison to both late-1984 and year-earlier levels. In many countries retail sales in early 1985 were only slightly above their levels of last September in volume terms; imports have been likewise sluggish.

Despite this domestic weakness, Europe should be able to continue modest overall economic growth this year (see Table 9), chalking up further advances in the U.S. and world markets, and shifting European current account positions further toward surplus. Inflation rates should remain low. Unfortunately, Europe's unemployment count may decline little since projected economic growth barely exceeds the likely increase in productivity.

Europe's role in global adjustment

The dollar's stubborn strength in the face of steeply declining U.S. interest rates is a continuing frustration to Europe. Calls have rung out for exchange market intervention to bring the dollar down. However, intervention cannot by itself affect the level of exchange rates durably unless it amounts to an effective shift in monetary policy, through so-called unsterilized intervention. To be effective in bringing down the dollar, such intervention would have to achieve a substantial easing of U.S. monetary policy and a tightening of policy abroad. Unless global inflation concerns are to be thrown overboard, it is hard to conceive of intervention that leads simultaneously to easier U.S. monetary policy, a lower dollar, and easier monetary policy abroad. Yet without monetary easing abroad, intervention advocates would have no hope of spurring investment as desired. In any event, the belief is misplaced that a lower dollar is the prerequisite to stronger European growth. In fact, in a low-inflation world a lower dollar is more plausibly a consequence of an acceleration in European growth achieved by other means.

Domestic stimulus to Europe's economic growth is especially urgent because of the desirability of multilateral steps to reduce the U.S. current account deficit. Action on the part of the United States alone is only too likely to lead to depression in the world economy. Attempting to talk the dollar down could precipitate a collapse of investor confidence. And, besides being difficult to accomplish, deep and abrupt cutting of the U.S. budget deficit would pose grave dangers if Europe and Japan continue to insist on export-led growth for their own economies. A fiscally induced slowdown in U.S. economic activity would quickly put the brakes on activity abroad. Because deterioration in economic performance abroad would hit U.S. exports and also limit any decline in the dollar, shrinkage of the U.S. trade deficit would require still weaker economic growth in the United States.

A vicious circle could ensue, as illustrated by Case 1 in Tables 10 and 11. The U.S. trade deficit would narrow somewhat but without improvement in the current account deficit. Worse, U.S. trade gains would be at the expense of the trade and current account positions of developing countries. Although the LDCs would obtain some relief of debt-servicing costs from lower interest rates, their scope for economic growth — already modest — would be further impaired. Thus sole reliance on a prescription for U.S. austerity would yield a hard landing not only for growth of the U.S. economy but for other economies too, including Europe.

The outlook for the world economy would be less unpleasant were Europe and Japan to undertake sufficient domestic stimulus to compensate for the loss of external stimulus from U.S. growth, thereby keeping their output growing at current rates. Compared with the subpar growth path of Case 1, the maintenance of foreign economic growth close to its potential rate, as in Case 2, would weaken the dollar further and require less deflation or budget cutting in the U.S. economy. That would bolster U.S. economic growth because rising U.S. exports would lessen the need to squeeze domestic demand. Europe and Ja-

Table 11

Medium-term scenarios for the U.S. trade and current accounts

percent changes, except as noted

	1984	1985	1986	1987	1988	1989
Case 1: extended U.S. fiscal restraint with weakening world economy						
U.S. trade balance, CIF ($ bil)	—123	—136	—135	—122	—119	—121
Exports ($ bil)	218	216	232	246	256	267
Imports ($ bil)	—341	—352	—367	—368	—376	—388
Current account ($ bil)	—102	—127	—125	—117	—120	—130
Foreign liabilities, net of assets ($ bil)	—30	97	222	339	459	589
Net debt-export ratio		9	42	72	99	127
U.S. real GNP	6.9	2.9	2.2	0.9	2.2	2.7
Domestic demand	8.7	3.4	1.7	0.7	2.1	2.7
Unemployment rate	7.4	7.3	7.6	8.7	9.1	9.3
Consumer prices	3.2	3.6	2.7	2.3	1.6	2.1
6-month Treasury bill (%)	9.8	8.0	6.4	4.7	4.1	4.3
Effective dollar, nominal, 1980-1982=100	122	128	124	124	124	124
Non-U.S. OECD real GNP	3.5	3.1	2.6	2.3	1.9	1.9
Europe	2.3	2.3	2.0	1.8	1.5	1.5
Japan	5.8	4.5	3.5	3.0	2.5	2.5
Non-U.S. consumer prices	6.2	5.8	4.1	3.6	3.3	3.3
Case 2: moderate U.S. fiscal restraint with compensating foreign stimulus						
U.S. trade balance, CIF ($ bil)	—123	—136	—130	—111	—107	—106
Exports ($ bil)	218	216	239	264	282	299
Imports ($ bil)	—341	—352	—369	—375	—388	—405
Current account ($ bil)	—102	—127	—121	—115	—116	—120
Foreign liabilities, net of assets ($ bil)	—30	97	218	333	449	569
Net debt-export ratio		9	41	67	91	113
U.S. real GNP	6.9	2.9	2.7	2.2	2.5	2.5
Domestic demand	8.7	3.4	2.1	1.9	2.4	2.4
Unemployment rate	7.4	7.3	7.4	7.8	8.0	8.3
Consumer prices	3.2	3.6	3.3	3.7	3.2	3.1
6-month Treasury bill (%)	9.8	8.0	6.8	7.1	6.2	5.9
Effective dollar, nominal, 1980-1982=100	122	128	120	118	118	118
Non-U.S. OECD real GNP	3.5	3.1	3.0	3.0	3.0	3.0
Europe	2.3	2.3	2.3	2.3	2.3	2.3
Japan	5.8	4.5	4.3	4.3	4.3	4.3
Non-U.S. consumer prices	6.2	5.8	4.5	4.1	4.1	4.1
Case 3: moderate U.S. fiscal restraint with higher European and Japanese growth						
U.S. trade balance, CIF ($ bil)	—123	—136	—125	—91	—64	—54
Exports ($ bil)	218	216	245	285	324	353
Imports ($ bil)	—341	—352	—369	—375	—389	—407
Current account ($ bil)	—102	—127	—115	—93	—72	—60
Foreign liabilities, net of assets ($ bil)	—30	97	212	306	377	437
Net debt-export ratio		9	40	59	71	79
U.S. real GNP	6.9	2.9	2.8	2.3	2.4	2.5
Domestic demand	8.7	3.4	2.1	1.8	1.9	2.2
Unemployment rate	7.4	7.3	7.3	7.7	8.0	8.2
Consumer prices	3.2	4.6	4.2	5.8	6.6	5.7
6-month Treasury bill (%)	9.8	8.0	6.8	7.6	7.2	6.3
Effective dollar, nominal, 1980-1982=100	122	128	120	114	110	110
Non-U.S. OECD real GNP	3.5	3.1	3.5	4.1	4.0	3.8
Europe	2.3	2.3	3.0	3.3	3.3	3.0
Japan	5.8	4.5	4.5	6.0	5.5	5.5
Non-U.S. consumer prices	6.2	5.8	4.5	4.5	4.5	4.5

pan would have to accept some reduction in their trade surpluses but, in recompense, they would enjoy less inflation and less dismal employment prospects. Since the U.S. economy also would be growing more strongly, output and employment possibilities would improve in all the industrial countries, providing firmer markets for LDCs.

The world economic climate would improve even further were Europe and Japan to undertake expansionary measures that for three or four years secure growth exceeding their long-term potential. If growth in the industrial countries outside the United States were to run somewhat above the pace achieved in 1984, as in Case 3, it would allow some modest, yet by no means overambitious, narrowing of the potential output gap that has built up so far in the 1980s. Specifically, in the case of Europe, this might call for average economic growth slightly exceeding 3% and providing roughly one full percentage-point decline in European unemployment rates by the end of the decade. Such a step-up in economic growth in Europe, with a companion speedup in Japan to annual growth of about 5.5% would lead to an even weaker dollar than in Case 2. If further accompanied by liberalization of trade policies, so that U.S. agricultural and manufacturing products could more effectively compete, the U.S. current account deficit would decline substantially.

In sum, shifting any significant part of the U.S. current account deficit to the other industrial countries is difficult or impossible as long as their domestic demand remains weak and their economic growth is export-led. Reduction of the U.S. current account deficit requires not only a lower dollar but also stronger economic growth abroad. The dollar will not come down significantly in the absence of attractive alternatives. With growth in Europe and Japan merely moderate, any dollar decline is likely to be limited and the U.S. current account deficit will continue to increase or stabilize at best. Thus, correction of the U.S. external imbalance, so necessary to arrest the protectionist trend in the world trade order, is a call for the opening of foreign markets and expansionary economic policies in Europe and Japan, as much as for restraint in the United States.

Much official opinion in Europe still maintains that Europe's policies are already as expansionary as is prudent in the face of structural problems. In particular, there is a paralyzing aversion to significant fiscal stimulus for expansion following a period of several years in which credibility has been reckoned to stand or fall with progress in fiscal consolidation. Yet, there is no evidence to support the complacent view that some inevitable decline in U.S. interest rates and the dollar will stimulate Europe's domestic demand sufficiently to compensate for the deflationary effects of a softening U.S. economy. Fiscal stimulus, especially in countries enjoying structural budget surpluses, is left as the only feasible way forward for Europe to create jobs speedily and in substantial numbers.

While the U.S. fiscal expansion of the past few years is not fully exportable to Europe and Japan, they will have to replicate some features of the U.S. recovery on a moderate scale if industrial-country expansion is to be sustained. What is required in Europe is not a massive fiscal program pretending to wipe out unemployment overnight without provoking high inflation, but rather a modest fiscal boost that nudges European growth rates up to the 3% to 3.5% range for the rest of the decade.

Growth in that range would require sustained growth of the U.K. economy at about the current pace, plus distinct acceleration in German growth above 3%. Complemented by intensified structural-adjustment and supply-side policies, that would cut Europe's jobless count by up to two million cumulatively, representing just one-tenth of the present unemployment total. The inflationary impact should surely be slight, especially with a falling dollar. This is the way that Europe can best make a significant and constructive contribution, not only to reducing the U.S. current account deficit without a world economic slowdown, but also to LDC economic prospects and a more hopeful future for Europe itself.

Statistical appendix

For key to data in tables see pages 18 and 19.

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Information herein is from sources considered to be reliable but is furnished without responsibility on the part of Morgan Guaranty Trust Company.

Nominal effective exchange rates

Index numbers, 1980-82 average=100.

	United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Belgium	Neth-erlands	Spain	Swit-zerland	Den-mark	Norway	Swe-den
1980	90.7	100.4	95.5	96.0	106.5	100.0	108.4	99.8	99.4	105.9	100.2	106.5	95.4	105.1	98.2	103.9
1981	99.5	100.2	105.8	104.0	100.4	97.2	98.8	102.1	98.9	101.8	97.1	99.4	98.3	99.2	100.1	103.3
1982	109.8	99.4	95.6	100.1	93.1	102.8	92.8	98.1	101.7	92.3	102.7	94.1	106.3	95.7	101.7	92.8
1983	114.2	100.8	107.8	92.0	87.3	107.6	90.3	91.6	103.6	90.0	105.0	78.4	111.5	96.4	99.4	82.2
1984	122.4	97.3	113.0	94.2	84.4	107.4	86.7	88.1	103.6	88.9	104.0	77.4	110.5	93.9	97.8	84.3
1984																
June	120.2	96.2	113.3	93.0	84.9	108.2	87.0	88.6	104.2	88.9	104.6	78.0	110.1	93.8	99.1	83.4
July	124.2	95.4	110.8	90.3	84.6	107.7	87.3	87.7	104.1	89.3	104.0	77.3	107.9	93.7	97.4	84.4
August	124.0	97.0	111.4	91.9	84.3	107.3	86.6	87.9	103.8	89.3	103.8	76.6	108.8	93.6	97.1	84.6
September	127.3	96.7	112.0	92.1	83.6	106.2	85.9	87.1	103.2	88.9	103.1	76.9	109.3	93.2	96.9	85.6
October	128.5	96.6	112.0	93.6	83.7	106.3	85.7	85.3	103.2	88.7	103.2	77.0	109.8	93.4	97.1	85.6
November	126.8	96.5	112.5	95.0	84.0	106.7	85.6	85.2	103.4	89.3	103.5	77.4	110.2	94.2	95.5	85.1
December	129.5	96.7	112.0	94.8	83.6	106.1	86.0	83.7	103.2	89.3	103.0	77.8	109.5	94.5	95.5	85.0
1985																
January	132.0	96.9	110.5	93.8	83.7	106.2	86.3	81.0	103.4	89.9	103.0	78.1	107.8	95.0	95.7	85.0
February	136.4	95.3	110.0	86.8	83.5	105.8	85.4	81.4	103.3	89.3	102.5	77.6	105.9	94.4	95.8	85.5
March	136.9	93.2	111.3	81.5	83.7	105.7	83.7	84.0	103.0	89.0	102.5	77.2	105.8	94.3	95.7	84.6
April	131.7	93.6	111.5	74.2	84.5	106.7	83.0	88.1	103.8	89.2	102.9	77.5	108.0	94.5	96.0	83.6
May	132.0	92.9	111.5	76.3	84.4	106.5	82.9	89.2	103.5	89.0	102.9	76.5	107.4	93.7	96.0	83.8
May 3	132.8	93.3	111.7	74.2	84.2	106.2	83.0	88.3	103.8	89.2	102.7	77.2	107.5	93.9	96.0	83.8
10	133.3	92.8	111.7	77.3	84.3	106.5	82.8	88.2	103.0	88.8	102.8	76.3	106.9	93.7	95.7	83.5
17	131.0	92.9	111.3	77.3	84.5	106.7	83.0	89.4	103.4	89.1	103.0	76.6	107.8	94.0	95.7	83.7
24	130.9	93.0	111.3	77.3	84.4	106.6	82.5	89.7	103.8	89.0	102.9	76.8	107.5	94.4	96.0	83.8
31	131.5	92.6	111.3	74.7	84.5	106.6	82.8	90.2	103.1	88.9	103.1	76.1	107.5	93.8	95.8	83.6
June 7	130.6	93.1	112.1	74.1	84.5	106.6	83.0	89.9	103.8	89.1	103.1	76.2	107.5	94.4	96.0	83.8
14	131.1	93.1	112.1	74.8	84.4	106.4	83.3	90.0	103.5	88.8	103.0	75.5	107.3	94.2	95.9	83.8

Real effective exchange rates — industrial countries

Index numbers, 1980-82 average=100.

	United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Belgium	Neth-erlands	Spain	Swit-zerland	Den-mark	Norway	Swe-den
1980	89.4	99.6	103.0	93.0	102.1	103.5	103.5	99.9	100.2	107.5	99.9	100.9	98.7	103.5	96.6	101.2
1981	100.6	100.0	104.6	102.7	100.1	97.3	98.7	102.3	99.1	100.3	97.6	99.4	98.7	99.2	100.9	102.1
1982	109.9	100.4	92.3	104.3	97.8	99.2	97.8	97.9	100.7	92.3	102.5	99.8	102.6	97.3	102.5	96.7
1983	112.7	102.1	96.6	100.0	96.1	99.3	100.1	92.0	101.7	92.0	101.8	90.6	104.4	98.8	101.3	91.5
1984	118.2	101.2	97.6	105.1	96.9	96.6	101.1	89.3	102.7	90.6	100.1	95.0	99.5	96.5	100.1	96.9
1984																
June	116.4	99.9	97.7	103.6	97.6	97.1	101.3	89.7	103.1	90.8	100.9	95.8	99.1	97.2	101.3	95.3
July	120.0	99.5	95.4	101.1	97.9	96.6	101.7	89.0	103.0	90.8	100.3	95.1	96.7	95.3	99.1	97.0
August	119.5	101.2	96.0	103.3	97.2	96.1	101.5	89.4	103.0	91.3	99.9	94.3	97.3	95.8	98.5	97.8
September	121.5	101.4	96.8	103.7	96.3	95.2	101.0	88.3	102.0	90.3	99.2	95.6	97.9	97.2	99.5	98.9
October	123.7	100.4	96.0	105.0	96.5	95.3	100.8	86.9	101.8	90.2	98.9	96.0	98.8	96.7	100.1	99.2
November	122.1	100.4	96.2	106.4	97.1	95.4	101.2	86.9	102.5	90.8	98.8	97.0	98.7	98.0	98.3	98.3
December	124.0	101.1	95.7	106.6	98.1	94.6	101.5	85.4	102.3	90.4	98.2	97.6	98.0	98.2	98.0	98.7
1985																
January	126.2	101.4	94.1	105.4	97.1	95.0	102.6	83.3	102.4	91.3	97.6	98.6	96.3	97.8	97.4	99.4
February	129.8	100.0	93.5	97.4	97.2	94.7	101.7	84.0	102.0	90.7	96.5	98.6	94.9	96.3	98.1	100.3
March	129.8	98.0	94.1	91.6	97.4	94.3	100.9	86.8	101.6	90.3	96.1	98.4	95.8	97.6	98.5	99.1
April	125.1	98.2	93.7	83.3	98.3	95.0	100.5	91.7	102.1	90.3	96.0	99.3	97.7	97.8	98.7	97.9
May	125.0	97.7	93.4	85.6	98.2	94.7	100.9	93.2	101.6	90.1	95.5	98.6	97.5	96.8	98.8	98.5

Real effective exchange rates — developing countries

Index numbers, 1980-82 = 100

	Argentina	Brazil	Chile	Colombia	Mexico r	Peru	Venezuela	Hong Kong	Indonesia	Korea	Malaysia	Philippines	Singapore	Taiwan	Israel	Turkey r
1980	116.4	84.8	95.3	94.7	104.0	93.1	91.3	98.4	89.6	95.9	96.2	93.3	98.6	100.9	92.9	100.2
1981	107.7	103.2	108.1	100.4	114.1	103.2	99.6	99.4	99.6	101.2	99.3	101.2	102.7	102.6	99.3	104.4
1982	75.9	112.0	96.5	104.9	81.9	103.8	109.1	102.2	110.8	102.9	104.5	105.5	98.7	96.5	107.7	95.4
1983	71.2	85.6	88.8	104.0	78.0	97.7	116.1	96.6	95.7	97.3	112.7	95.1	97.1	93.1	119.5	92.8
1984	79.9	85.5	89.8	99.3	91.5	105.8	85.6	100.3	96.8	95.8	119.0	107.4	95.8	95.4	118.3	90.6
1984																
May	83.6	81.0	89.9	99.9	87.9	103.7	74.1	97.7	95.6	94.8	118.0	110.9	95.9	94.1	116.7	90.2
June	83.4	83.4	90.3	99.0	90.0	106.9	77.3	98.2	96.5	95.1	118.4	101.0	95.2	94.5	117.5	91.6
July	85.6	86.4	91.3	99.5	90.9	108.7	79.6	100.5	98.8	96.0	120.7	104.7	95.6	96.6	117.6	90.7
August	85.7	86.3	92.4	99.3	91.3	109.1	83.6	100.8	97.4	96.2	121.3	106.4	96.2	97.5	119.1	91.8
September	88.7	88.6	93.0	100.1	94.2	109.7	85.8	103.6	97.4	97.6	123.3	113.8	96.9	98.9	122.0	94.0
October	82.0	89.9	89.6	98.4	96.3	107.9	87.6	105.3	97.8	97.2	120.9	112.4	96.0	98.1	122.1	94.5
November	73.7	88.5	88.1	97.4	95.8	104.8	87.8	104.6	96.5	96.2	119.5	109.0	94.9	96.6	122.1	95.4
December	76.1	91.1	87.0	98.0	96.1	101.6	89.2	107.0	98.7	96.8	120.7	112.0	95.3	97.3	114.3	95.6
1985																
January	75.0	94.1	88.1	98.9	97.7	98.3	91.3	108.6	100.0	96.8	121.9	118.3	95.4	98.1	109.5	98.1
February	75.0	93.2	89.5	99.8	100.2	97.0	93.6	111.4	101.2	97.8	120.4	123.6	95.5	99.4	119.6	102.4
March	76.5	96.7	82.9	96.6	100.9	92.2	94.5	111.3	100.0	96.1	119.8	123.5	95.5	98.6	116.1	101.9
April	76.2	88.9	81.6	91.4	99.1	91.0	92.8	108.0	98.8	92.0	119.5	122.3	94.1	95.8	112.6	96.2

International banking market size

at end of period, billions of dollars

	1980r	1981r	1982r	1983	1984			
				Decr	Marr	Junr	Sepr	Dec
Gross claims								
Eurocurrencies, on residents and nonresidents	**1 563**	**1 929**	**2 146**	**2 253**	**2 339**	**2 330**	**2 322**	**2 352**
On nonbanks	431	557	634	665	685	679	676	684
On banks	1 132	1 372	1 512	1 588	1 654	1 651	1 646	1 668
In dollars	1 173	1 504	1 694	1 797	1 841	1 850	1 857	1 887
In other currencies	390	425	452	456	498	480	465	465
Domestic currencies, on nonresidents	**345**	**365**	**398**	**398**	**400**	**406**	**393**	**397**
On nonbanks	139	128	132	136	136	140	138	137
On banks	206	237	266	262	264	266	255	260
In dollars	173	188	211	217	206	218	208	210
In other currencies	172	177	187	181	194	188	185	187
Total	**1 908**	**2 294**	**2 544**	**2 651**	**2 739**	**2 736**	**2 715**	**2 749**
On nonbanks	570	685	766	801	821	819	814	821
On banks	1 338	1 609	1 778	850	1 918	1 917	1 901	1 928
In dollars	1 346	1 692	1 905	2 014	2 047	2 068	2 065	2 097
In other currencies	562	602	639	637	692	668	650	652
Gross liabilities								
Eurocurrencies, to residents and nonresidents	**1 578**	**1 954**	**2 168**	**2 278**	**2 362**	**2 360**	**2 349**	**2 383**
To nonbanks	278	372	432	479	500	503	492	500
To official monetary institutions	128	112	91	88	85	88	94	96
To other banks	1 172	1 470	1 645	1 711	1 777	1 769	1 763	1 787
In dollars	1 193	1 539	1 741	1 846	1 882	1 905	1 912	1 949
In other currencies	385	415	427	432	480	455	437	434
Domestic currencies, to nonresidents	**280**	**263**	**250**	**258**	**262**	**277**	**274**	**277**
To nonbanks	82	74	70	71	71	71	72	77
To banks	198	189	180	187	191	206	202	200
In dollars	135	126	116	133	128	140	140	143
In other currencies	145	137	134	125	134	137	134	134
Total	**1 858**	**2 217**	**2 418**	**2 536**	**2 624**	**2 637**	**2 623**	**2 660**
To nonbanks	360	446	502	550	571	574	564	577
To banks and official institutions	1 498	1 771	1 916	1 986	2 053	2 063	2 059	2 083
In dollars	1 328	1 665	1 857	1 979	2 010	2 045	2 052	2 092
In other currencies	530	552	561	557	614	592	571	568
Net market size	**957**	**1 155**	**1 285**	**1 385**	**1 403**	**1 421**	**1 408**	**1 421**

International bond issues and bank credits

millions of dollars

	1982	1983	1984	1985			Jan-May	
				Mar	Apr	May	1985	1984
By country of borrower								
Industrial countries	**108 772**	**102 652**	**177 077**	**10 786**	**17 234**	**16 863**	**79 226**	**81 746**
Australia	7 213	5 737	5 816	873	838	698	3 701	1 776
Austria	2 068	1 290	2 254	356	112	241	1 045	1 181
Belgium	1 528	2 168	1 847	116	336	21	988	467
Canada	15 856	8 571	13 124	1 092	400	579	7 443	4 474
Denmark	2 725	3 941	4 825	74	440	222	1 453	2 505
Finland	1 446	1 271	1 713	139	60	56	660	743
France	14 813	8 626	11 298	1 172	914	208	4 780	4 053
Germany	1 101	3 197	2 165	—	50	287	727	1 032
Greece	808	1 291	1 551	—	200	450	1 119	550
Ireland	1 136	1 869	1 377	—	191	39	631	227
Italy	6 687	4 876	6 933	1 095	1 958	771	6 578	1 960
Japan	8 397	14 428	17 526	1 403	1 763	1 425	9 000	9 379
Netherlands	1 000	1 213	1 973	14	133	123	514	1 527
New Zealand	4 786	802	3 208	121	—	266	751	675
Norway	2 601	1 969	1 324	172	135	—	620	541
Portugal	1 684	1 030	1 796	549	68	138	1 017	603
South Africa	1 889	1 300	1 422	—	201	73	475	829
Spain	2 675	4 977	4 931	125	616	695	2 346	3 104
Sweden	3 181	7 144	11 256	1 068	512	2 639	5 459	4 133
United Kingdom	2 836	2 726	8 899	599	2 198	3 648	7 869	3 770
United States	21 109	20 276	65 054	1 587	5 829	4 160	21 181	36 509
*Other**	3 233	3 950	6 785	232	282	128	872	1 685
Developing countries	**49 023**	**38 256**	**39 725**	**2 413**	**1 687**	**3 402**	**10 519**	**21 938**
Latin American countries	**29 667**	**15 592**	**17 464**	**381**	**286**	**152**	**1 167**	**11 653**
Argentina	1 565	1 750	4 212	—	—	—	—	12
Brazil	5 972	4 475	6 649	—	—	—	—	6 500
Chile	1 194	1 405	784	—	—	—	—	784
Colombia	776	552	589	—	—	52	52	229
Mexico	9 968	5 138	3 918	—	—	—	—	3 800
Venezuela	7 241	237	—	—	—	—	—	—
*Other***	2 951	2 035	1 312	381	286	100	1 115	328
Asian countries	**11 723**	**12 978**	**15 893**	**1 976**	**811**	**2 196**	**6 400**	**6 650**
India	555	968	945	25	21	—	338	300
Indonesia	1 822	2 363	1 924	—	—	400	400	872
Korea	3 277	4 387	6 201	965	418	429	2 209	2 731
Malaysia	2 872	2 197	2 605	600	92	120	930	1 339
Philippines	888	878	925	—	—	925	925	—
Thailand	414	747	1 221	150	—	75	625	430
Other	1 895	1 438	2 072	236	280	248	973	978
Middle Eastern and African countries	**7 633**	**9 686**	**6 368**	**55**	**590**	**1 055**	**2 952**	**3 635**
Algeria	86	1 993	821	—	—	700	1 300	20
Nigeria	2 069	2 343	985	—	—	—	—	985
Turkey	277	1 106	741	51	500	28	579	600
Other	5 201	4 244	3 821	5	90	327	1 074	2 030
Eastern European countries	**1 479**	**1 294**	**3 244**	**562**	**480**	—	**1 577**	**1 622**
Hungary	340	741	1 386	39	25	—	294	885
Soviet Union	1 131	93	1 051	—	333	—	539	528
*Other****	8	460	807	523	122	—	745	209
International organizations****	**11 353**	**16 201**	**13 287**	**1 558**	**1 706**	**2 499**	**8 886**	**5 172**
By type of instrument and currency								
International bond issues	**78 042**	**76 329**	**107 411**	**9 845**	**12 347**	**16 636**	**66 132**	**44 069**
Eurobonds	51 645	48 501	79 456	7 946	9 816	14 504	55 153	30 061
U.S. dollar	43 959	38 428	63 593	5 835	7 125	11 325	42 640	23 612
German mark	2 568	3 817	4 604	82	435	1 133	2 866	1 963
British pound	748	1 947	3 997	914	433	525	2 261	1 716
Japanese yen	374	212	1 212	117	478	180	1 866	305
European composite units	1 980	2 019	3 032	404	738	658	2 532	1 427
Other	1 996	2 078	3 020	594	607	682	2 989	1 038
Foreign bonds	26 397	27 828	27 953	1 898	2 531	2 132	10 978	14 008
U.S. dollar	5 946	4 545	5 487	315	308	509	1 957	3 268
German mark	2 952	2 671	2 243	232	145	65	689	908
British pound	1 214	811	1 292	—	92	—	157	627
Swiss franc	11 432	14 299	12 626	971	862	1 031	4 807	6 768
Japanese yen	3 418	3 772	4 628	234	1 195	387	2 653	1 677
Other	1 435	1 730	1 677	147	129	140	716	760
International bank credits	**92 585**	**82 074**	**125 922**	**5 475**	**8 760**	**6 129**	**34 077**	**66 409**
Eurocurrency credits	85 015	74 222	112 605	4 590	8 548	5 676	31 623	61 954
Foreign credits	7 570	7 852	13 317	884	212	453	2 454	4 455
Total	**170 627**	**158 403**	**233 333**	**15 319**	**21 107**	**22 765**	**100 209**	**110 478**

*Includes multinational organizations. **Includes unallocated. ***Includes COMECON institutions. ****Includes regional development organizations.

Eurocurrency deposit rates

prime banks' bid rates, at or near end of month

	1981	*1982*	*1983*	*1984*		*1985*				
	Dec	*Dec*	*Dec*	*Nov*	*Dec*	*Jan*	*Feb*	*Mar*	*Apr*	*May*
Eurodollar										
overnight	12.87	9.25	9.50	8.69	8.63	8.50	8.44	8.81	8.31	7.50
one month	13.31	9.13	9.69	8.81	8.38	8.31	8.88	8.69	8.38	7.56
three months	13.75	9.19	9.81	9.06	8.63	8.44	9.44	9.00	8.69	7.63
six months	14.81	9.50	10.06	9.50	9.13	8.69	10.00	9.44	9.00	7.88
twelve months	14.75	9.63	10.38	10.06	9.81	9.31	10.75	10.13	9.75	8.38
Euro-Canadian dollar										
one month	15.37	10.00	9.13	10.88	9.88	9.63	10.38	10.38	9.50	9.50
three months	15.37	10.00	9.50	10.50	10.81	9.63	11.19	10.56	9.81	9.50
six months	16.37	10.13	9.75	10.56	10.06	9.63	11.75	10.69	10.38	9.63
twelve months	16.37	10.25	10.00	10.56	10.44	9.88	12.06	12.00	10.75	9.94
Euro-French franc										
one month	15.75	23.00	12.13	10.69	10.69	10.31	10.63	10.63	10.31	10.13
three months	17.00	24.00	12.19	10.88	10.69	10.56	11.00	10.81	10.44	10.25
six months	18.00	22.00	12.31	11.19	11.00	11.00	11.44	11.25	10.75	10.38
twelve months	18.25	19.75	12.63	11.63	11.38	11.63	11.88	11.56	10.94	10.63
Euromark										
one month	10.44	5.88	5.25	5.56	5.50	5.75	5.81	5.69	5.75	5.50
three months	10.50	5.88	5.88	5.56	5.50	6.00	6.06	5.88	5.81	5.50
six months	10.56	5.94	6.13	5.63	5.56	6.06	6.38	6.06	5.88	5.56
twelve months	10.25	6.00	6.38	5.69	5.56	6.13	6.56	6.25	6.06	5.56
Euro-Dutch guilder										
one month	10.75	5.13	5.81	5.63	5.69	6.00	6.81	6.69	6.94	7.00
three months	10.75	5.19	6.00	5.81	5.75	6.13	7.06	6.81	6.94	6.88
six months	10.75	5.38	6.25	5.88	5.81	6.19	7.13	6.88	6.94	6.88
twelve months	10.75	5.63	6.38	6.00	5.94	6.31	7.31	6.94	7.00	6.81
Euro-Swiss franc										
one month	8.87	2.81	3.38	5.13	4.44	5.38	5.50	5.19	5.00	5.13
three months	9.25	3.25	3.75	4.94	4.56	5.38	5.75	5.50	5.19	5.13
six months	9.25	3.44	3.94	4.94	4.63	5.31	5.81	5.56	5.25	5.06
twelve months	8.50	3.44	3.94	4.94	4.69	5.19	5.63	5.44	5.25	5.00
Eurosterling										
one month	15.37	10.56	9.13	9.69	9.50	13.13	14.00	13.56	12.75	12.63
three months	15.69	10.44	9.31	9.69	9.88	12.50	13.88	13.13	12.69	12.44
six months	15.69	10.31	9.50	9.81	10.00	11.94	13.13	12.31	12.44	12.50
twelve months	15.37	10.31	9.81	10.00	10.19	11.88	12.69	11.94	12.13	12.01
Euroyen										
one month	6.12	6.75	6.25	6.50	6.19	6.19	6.50	6.25	6.13	6.31
three months	6.12	6.75	6.31	6.31	6.19	6.31	6.38	6.31	6.25	6.25
six months	6.87	7.10	6.38	6.31	6.13	6.25	6.31	6.31	6.31	6.25
twelve months	6.87	6.81	6.44	6.31	6.13	6.25	6.31	6.31	6.31	6.31
European currency unit										
one month	14.63	12.44	8.81	9.19	9.25	9.94	9.94	10.00	9.38	9.31
three months	14.75	12.31	9.19	9.31	9.38	9.94	10.06	10.13	9.56	9.31
six months	15.00	12.00	9.44	9.38	9.50	9.94	10.13	10.13	9.69	9.38
twelve months	14.56	11.19	9.63	9.69	9.63	9.94	10.13	10.25	9.88	9.50

International bond yields

average yield of several actively traded, high quality issues with a maturity of 7 to 12 years at or near end of month

	1982	*1983*	*1984*		*1985*				
	Dec	*Dec*	*Nov*	*Dec*	*Jan*	*Feb*	*Mar*	*Apr*	*May*
United States companies									
Eurodollar	11.16	11.59	11.17	11.25	11.05	11.65	11.73	11.24	10.58
Euromark	7.24	7.34	7.08	6.95	7.19	7.57	7.35	7.11	6.90
Swiss franc	5.70	5.83	5.70	5.73	5.85	5.95	5.86	5.74	5.69
European governments									
Eurodollar	12.53	12.65	12.00	12.04	11.72	12.40	12.29	11.97	11.20
Euromark	8.10	8.12	7.43	7.39	7.54	7.88	7.61	7.54	7.37
Swiss franc	5.40	5.63	5.43	5.24	5.17	5.35	5.34	5.21	5.20
European currency unit	n.a.	11.77	10.79	10.64	10.62	10.65	10.44	10.39	10.10

Central bank discount rates

at or near end of month

	1981	1982	1983	1984	1985					Current	
	Dec	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun 20 1985	effective since
United States	12.00	8.50	8.50	8.00	8.00	8.00	8.00	8.00	7.50	7.50	May 17, 85
Canada	14.66	10.05	9.96	10.09	9 75	11.52	10.65	10.02	9.76	9.57	Jun 20, 85
Austria	6.75	4.75	3.75	4.50	4.50	4.50	4.50	4.50	4.50	4.50	Jun 28, 84
Belgium	15.00	11.50	10.00	11.00	11.00	11.00	11.00	11.00	9.50	9.25	Jun 3, 85
Denmark	11.00	10.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	Oct 27, 83
Finland	9.25	8.50	9.50	9.50	9.50	9.00	9.00	9.00	9.00	9.00	Feb 1, 85
France	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	Aug 31, 77
Germany	7.50	5.00	4.00	4.50	4.50	4.50	4.50	4.50	4.50	4.50	Jun 29, 84
Ireland	16.50	14.00	12.25	14.00	14.00	14.00	14.00	12.75	12.75	12.75	Apr 19, 85
Italy	19 00	18.00	17.00	16.50	15 50	15.50	15.50	15.50	15.50	15.50	Jan 4, 85
Netherlands	9.00	5.00	5.00	5.00	5.00	5.50	5.50	5.50	5.50	5.50	Feb 1, 85
Norway	9.00	9 00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	Jun 6, 83
Portugal	18.00	19.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00	Aug 10, 83
Spain	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	Jul 26, 77
Sweden	11.00	10.00	8.50	9.50	9.50	9.50	9.50	9.50	11.50	11.50	May 14, 85
Switzerland	6.00	4.50	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	Mar 18, 83
United Kingdom	14.37	10.00	9.00	9.38	13.75	13.75	13.75	12.25	12.25	12.25	Apr 19, 85
Japan	5.50	5.50	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	Oct 22, 83
New Zealand	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	Jul, 81
South Africa	13.50	15.45	18.50	21.75	22.75	22.33	22.33	21.25	20.25	19.25	Jun 14, 85
Argentina*	8.20	10.56	15.10	18.19	19.06	19.06	20.78	25.82	32.50	n.a.	May 1, 85
Korea	10.50	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	Mar 29, 82
Philippines	6.69	6.30	8.05	12.11	11.32	11.33	11.91	n.a.	n.a.	n.a.	Mar, 85
Singapore	9.50	7.00	7.00	6.75	6.50	6.50	6.50	6.00	5.50	5.50	May 21, 85
Thailand	14.50	12.50	13.00	12.00	12 00	12.00	12.00	12.00	12.00	12.00	Nov, 84
Venezuela	14.00	13.00	11.00	11.00	11.00	11.00	10.00	10.00	9.00	9.00	May 28, 85

*Percent per month.

Day-to-day money rates

monthly averages

	1981	1982	1983	1984			1985				
	Dec	Dec	Dec	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
United States	12.37	8.95	9.47	9.99	9.43	8.38	8.35	8.50	8.58	8.27	7.97
Canada	14.53	10.63	8.78	11.95	11.22	10.50	9.75	9.88	10.41	10.25	9.75
Austria	7.50	6.00	5.75	6.75	7.25	7.63	6.75	6.50	6.75	6.38	6.13
Belgium	12.45	9.29	7.39	9.43	10.07	9.12	9.22	8.99	9.13	9.45	8.84
Finland	11.30	11.50	16.70	15.75	15.48	15.07	14.57	14.18	14.00	13.96	13.80
France	15.46	12.88	12.27	11.04	11.18	10 95	10.56	10.65	10.67	10.48	10.17
Germany	10.58	6.15	5.61	5.61	5.51	5.62	5.52	5.78	5.85	5.70	5.67
Ireland	16.88	14.54	12.19	13.50	14.25	14.50	14.63	14.75	14.63	13.63	n.a.
Italy	20.63	19.00	17.88	17.38	17.25	17.25	16.06	16.00	16.00	15.77	15.46
Netherlands	10.67	5.31	5.84	5.90	5.57	5.60	5.78	5.75	6.93	6.74	7.15
Norway	18.60	11.00	12.30	12.90	13.10	12.50	10.70	12.80	11.60	13.40	13.00
Spain	18.73	15.81	16.77	10.87	12.96	12.11	11.35	12.12	11.99	10.42	n.a.
Sweden	13.95	9.31	11.52	12.56	11.64	11.88	10.58	13.50	13.50	13.49	14.95
Switzerland	3.38	1.25	1.88	2.00	1.50	1.50	2.63	1.75	2.50	2.00	2.25
United Kingdom	9.13	6.70	7.78	7.38	7.55	6.31	7.38	11.94	10.60	12.38	11.26
Argentina*	12.84	11.04	4.56	10.61	10.92	10.88	10.89	11.14	13.34	14.78	15.12
Japan	6.70	6.92	6.44	6.15	6.10	6.41	6.17	6.16	6.42	6.07	6.01
South Africa	12.75	14.15	16.06	21.50	21.50	21.13	22.19	21.56	21.50	21.50	19.81
Argentina	6.98	12.77	14.65	17.75	17.75	17.75	18.63	18.63	20.35	23.74	32.00
Brazil	103.74	150.42	184.69	328.87	244.59	272.02	378.76	287.93	337.15	n.a.	n.a.
Hong Kong	10.75	9.13	13.90	8.47	7.23	6.80	6.94	6.18	6.15	7.21	5.88
Korea	14.40	13.84	11.40	11.30	10.90	10.00	8.90	9.30	9.70	9.80	9.50
Philippines	14.70	16.12	31.18	40.09	32.17	15.22	23.15	19.80	27.80	23.97	n.a.
Singapore	3.96	11.45	7.05	7.54	6.29	6.01	5.40	6.07	5.30	4.69	5.75

*Percent per month.

Treasury bill rates

bond equivalent yields, at or near end of month

	1981	1982	1983	1984			1985				
	Dec	Dec	Dec	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
United States	11.90	8.15	9.28	9.69	8.71	7.99	7.88	8.87	8.42	8.08	7.63
Canada	14.41	9.80	9.71	11.46	10.50	9.84	9.50	11.27	10.40	9.77	9.51
Belgium	16.22	12.42	11.00	11.15	10.90	10.90	10.85	10.85	10.60	9.63	9.13
Ireland	18.13	15.25	12.01	13.24	14.80	15.10	14.59	14.54	13.77	12.62	n.a.
Italy	21.36	19.11	16.95	15.30	14.90	14.69	13.75	13.46	13.38	14.31	14.22
Netherlands	9.75	5.63	5.63	5.63	5.63	5.88	6.31	6.51	6.75	7.00	6.75
Spain	n.a.	15.28	14.46	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Sweden	n.a.	12.90	11.75	11.83	12.04	11.83	13.53	14.28	14.33	14.47	16.48
United Kingdom	15.35	9.96	9.04	10.13	9.27	9.33	11.89	13.91	12.77	12.26	12.16
Australia	13.27	9.39	8.54	10.75	10.98	12.27	12.22	13.51	14.82	14.72	14.25
Japan	5.42	5.42	4.91	4.91	4.91	4.91	4.91	4.91	4.91	4.91	4.91
New Zealand	11.25	11.25	7.80	13.50	13.50	13.50	17.50	17.45	19.50	23.40	21.00
South Africa	14.55	14.62	18.43	23.03	21.82	21.94	23.05	23.01	22.45	21.92	16.78
Brazil	92.62	115.40	179.15	273.03	273.03	273.03	273.03	273.03	273.03	n.a.	n.a.
Mexico	33.23	57.44	53.78	46.67	47.06	48.67	48.07	50.00	58.15	57.69	63.34
Philippines	13.22	14.54	15.99	46.30	48.67	47.14	35.69	30.92	34.29	34.22	n.a.
Singapore	3.03	2.74	2.59	3.01	2.80	2.91	2.93	2.93	2.97	2.94	3.07

Representative money market rates

bond-equivalent yields on major short-term (mostly 3-4 month) money market instruments other than Treasury bills, at or near end of month

	1981	1982	1983	1984			1985				
	Dec	Dec	Dec	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
United States	12.96	8.94	9.89	9.73	8.97	8.34	8.17	9.18	8.94	8.39	7.70
Canada	15.25	9.95	9.87	11.80	10.80	10.10	9.65	11.80	10.55	10.20	9.80
Belgium	16.00	12.35	11.00	11.00	10.75	10.70	10.70	10.70	10.45	10.10	9.25
France	15.25	12.75	12.19	10.18	10.56	10.69	10.31	10.69	10.63	10.31	10.25
Germany	10.50	6.20	6.30	6.05	5.80	5.75	5.85	6.25	6.20	5.90	5.80
Ireland	18.50	15.75	12.19	13.75	15.38	15.13	14.63	14.75	13.75	12.75	n.a.
Italy	21.00	19.00	17.88	17.25	17.25	17.25	16.00	16.13	15.75	15.25	15.00
Netherlands	11.00	5.25	6.00	6.06	5.94	5.75	6.50	7.19	6.88	7.13	6.94
Portugal	13.80	15.05	24.11	24.52	24.51	24.57	24.57	24.53	24.61	24.52	n.a.
Spain	15.52	16.55	18.48	12.54	12.95	12.13	12.27	12.22	12.15	12.34	n.a.
Switzerland	10.12	3.88	3.88	5.25	5.00	5.00	5.63	6.13	5.75	5.38	5.38
United Kingdom	15.69	10.50	9.31	10.56	9.72	9.88	12.50	13.88	13.06	12.56	12.44
Australia	16.00	10.65	9.50	11.30	11.75	12.50	13.55	14.60	15.60	15.70	15.05
Japan	6.30	6.80	6.42	6.30	6.30	6.29	6.26	6.32	6.27	6.25	6.25
New Zealand	16.05	16.75	12.10	16.25	15.25	15.25	18.75	22.75	25.00	23.50	23.20
South Africa	15.47	15.26	19.12	23.56	22.11	22.78	24.07	24.12	23.50	22.09	19.35
Chile	30.46	55.90	20.68	43.80	46.24	20.68	20.68	30.42	27.86	38.93	32.85
Hong Kong	14.18	10.13	12.84	10.13	8.76	8.26	7.85	7.64	8.28	7.35	6.96
Indonesia	14.48	18.50	19.50	20.00	19.00	19.00	19.00	20.50	22.00	19.00	18.00
Korea	15.69	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
Malaysia	9.50	8.50	9.80	15.00	10.00	10.30	9.50	9.30	10.01	9.50	12.00
Philippines	17.70	15.96	15.61	31.23	38.67	33.21	29.38	26.95	24.73	23.43	n.a.
Singapore	7.81	8.69	8.44	7.38	6.69	7.00	6.03	6.44	6.06	5.31	5.25
Taiwan	10.94	9.94	7.65	5.17	6.17	8.07	6.78	9.14	7.76	6.45	6.98
Thailand	14.29	12.25	16.00	14.00	12.00	12.00	14.00	17.75	16.50	16.00	n.a.

Commercial bank deposit rates

at or near end of month

	1981	1982	1983	1984			1985				
	Dec	Dec	Dec	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
United States	12.62	8.25	9.70	9.95	8.85	8.35	8.06	9.22	8.80	8.25	7.50
Canada	15.20	9.85	9.82	11.75	10.75	10.05	9.60	11.75	10.50	10.15	9.75
Austria	9.63	5.25	6.50	7.38	7.63	7.50	6.94	6.88	6.88	6.88	6.50
Belgium	15.50	12.25	11.25	10.75	10.63	10.63	10.75	10.87	10.25	9.50	9.00
Denmark	10.00	9.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Finland	5.00	4.25	5.25	5.25	5.25	5.25	5.25	4.75	4.75	4.75	4.75
France	9.16	8.24	7.66	7.08	7.14	7.04	6.85	6.90	6.90	6.82	6.67
Germany	9.50	6.00	5.90	5.40	5.30	5.25	5.35	5.55	5.70	5.45	5.30
Ireland	18.38	15.25	11.75	13.25	14.75	14.63	14.25	14.25	13.50	12.00	n.a.
Italy	13.25	13.25	13.25	11.64	11.64	11.64	11.00	11.00	10.96	10.96	10.88
Netherlands	11.00	5.38	6.13	6.00	5.81	5.69	6.38	7.06	6.81	7.00	6.81
Norway	12.75	13.50	12.75	12.75	12.75	12.75	12.25	13.00	12.75	12.75	12.40
Portugal	14.00	15.00	21.50	28.00	28.00	27.00	27.00	27.00	n.a.	n.a.	n.a.
Spain	11.78	12.53	12.62	11.76	11.67	11.64	11.34	11.02	10.80	n.a.	n.a.
Sweden	12.65	12.15	11.70	11.50	11.50	11.45	13.10	13.65	13.70	13.77	16.13
Switzerland	8.75	3.00	3.50	4.75	4.63	4.50	5.00	5.75	5.25	4.88	4.88
United Kingdom	15.69	10.31	9.31	10.44	9.75	9.88	13.13	13.75	13.00	12.50	12.38
Australia	15.65	10.20	10.40	11.22	11.46	12.75	13.78	13.82	14.95	15.55	14.93
Japan	6.50	7.00	6.50	6.42	6.43	6.38	6.42	6.50	6.36	6.36	6.36
New Zealand	15.50	16.50	11.50	15.00	15.50	15.25	17.00	18.75	20.00	23.00	23.50
South Africa	14.75	15.25	20.13	23.58	22.00	22.88	24.13	23.75	23.63	22.25	20.25
Argentina*	7.13	8.50	14.50	26.30	23.42	31.23	23.42	23.01	25.89	29.59	32.88
Brazil	110.05	21.00	23.00	26.00	26.50	27.00	26.00	25.50	26.50	n.a.	n.a.
Chile	32.24	47.09	20.57	47.81	52.68	20.68	20.19	30.29	n.a.	38.61	32.85
Hong Kong	12.50	7.50	9.00	8.00	7.50	7.00	5.50	5.50	5.00	4.50	4.00
Korea	14.40	7.60	7.60	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Malaysia	10.00	8.40	7.75	10.08	10.02	9.58	9.50	9.50	9.66	9.42	9.67
Mexico	31.82	52.54	57.15	47.63	47.45	47.45	47.45	47.45	51.89	54.50	55.90
Philippines	13.35	14.10	14.96	29.37	32.47	31.01	27.07	24.36	22.12	23.88	n.a.
Singapore	7.50	8.25	7.44	7.01	6.19	6.13	5.44	6.01	5.82	5.01	4.88
Taiwan	10.75	7.50	7.00	6.75	6.50	6.50	6.50	6.50	6.25	6.25	6.25
Thailand	10.00	10.00	10.00	13.00	13.00	13.00	13.00	13.00	13.00	16.00	n.a.
Venezuela	14.75	15.50	12.00	13.00	13.00	12.50	12.00	13.00	11.50	11.50	n.a.

*Percent per month.

Domestic government bond yields

long-term issues, at or near end of month

	1981	1982	1983	1984			1985				
	Dec	Dec	Dec	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
United States	14.33	10.61	12.00	11.86	11.64	11.61	11.28	12.09	11.92	11.64	10.71
Canada	15.27	11.69	12.02	12.18	11.81	11.66	11.38	12.30	11.93	11.50	10.76
Austria	10.37	8.81	8.02	8.10	8.07	8.04	8.00	8.00	8.06	8.06	7.93
Belgium	13.99	12.66	11.89	11.74	11.47	11.56	11.56	11.58	11.50	11.49	10.78
Denmark	20.91	20.14	12.96	14.63	14.92	14.60	13.66	13.74	13.33	12.87	12.26
Finland	10.98	10.64	11.16	10.85	10.84	10.73	10.84	10.91	10.39	10.34	10.45
France	16.44	15.40	13.96	12.02	12.36	12.70	12.12	12.25	12.27	11.98	11.72
Germany	9.71	7.90	8.38	7.53	7.20	7.17	7.35	7.71	7.44	7.30	7.10
Ireland	18.28	14.54	14.25	14.99	15.25	14.90	14.57	14.74	13.55	13.08	n.a.
Italy	21.39	19.70	17.69	15.32	15.23	14.52	13.22	13.25	13.48	13.53	n.a.
Netherlands	11.26	8.16	8.58	7.94	7.65	7.72	7.42	7.93	8.06	7.73	7.58
Norway	12.37	13.32	12.50	12.00	12.00	12.00	12.50	12.00	12.38	12.38	12.38
Portugal	17.39	16.63	22.11	20.84	21.21	22.23	20.34	20.69	20.21	n.a.	n.a.
Spain	16.20	15.92	17.25	15.49	14.96	13.93	13.29	13.44	13.49	n.a.	n.a.
Sweden	12.80	13.01	12.30	12.34	12.16	12.04	12.39	13.23	12.93	13.42	13.70
Switzerland	5.40	4.22	4.54	4.89	4.77	4.78	4.74	4.91	4.88	4.81	4.79
United Kingdom	15.02	10.62	9.94	10.19	9.96	10.25	10.65	10.56	10.34	10.42	10.51
Australia	15.00	13.00	13.65	13.30	13.30	13.40	13.12	13.70	13.85	14.05	13.70
Japan	8.11	7.96	7.45	7.11	6.61	6.36	6.37	7.19	6.97	6.85	6.60
New Zealand	12.55	12.84	10.50	16.65	16.60	16.90	17.09	17.35	17.50	18.35	18.25
South Africa	13.33	11.31	13.64	16.80	15.90	16.55	17.25	17.85	16.85	16.40	15.85
Philippines	13.01	13.64	14.47	27.31	34.77	18.54	21.15	24.20	13.69	12.75	n.a.
Venezuela	12.50	15.00	13.50	14.50	14.50	14.00	13.00	13.50	13.00	12.50	n.a.

Commercial bank lending rates to prime borrowers

at or near end of month

	1981	1982	1983	1984			1985				
	Dec	Dec	Dec	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
United States	15.75	11.50	11.00	12.00	11.25	10.75	10.50	10.50	10.50	10.50	10.00
Canada	17.25	12.50	11.00	12.50	12.00	11.25	11.00	11.50	11.75	10.75	10.50
Austria	13.50	11.75	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25
Belgium	18.00	15.50	13.75	14.00	14.00	14.00	14.00	14.00	14.00	13.50	12.50
Denmark	15.00	14.00	10.00	10.00	10.50	10.50	10.50	10.50	11.00	10.50	10.50
Finland	9.84	8.95	10.18	10.55	10.63	10.68	10.69	10.30	10.36	10.38	n.a.
France	14.00	12.25	12.25	12.00	12.00	12.00	11.50	11.50	11.50	11.50	11.25
Germany	13.00	8.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75
Ireland	17.25	16.50	13.75	13.75	13.75	15.75	15.75	15.75	15.75	14.50	n.a.
Italy	22.50	20.75	18.75	18.00	18.00	18.00	17.00	17.00	17.00	17.00	17.00
Netherlands	12.00	6.25	7.00	6.50	6.50	6.25	6.75	7.75	7.50	7.13	7.75
Norway	13.75	14.50	13.50	13.25	13.00	13.00	11.50	12.88	12.50	12.50	12.90
Portugal	20.50	23.50	30.00	29.00	29.00	29.00	29.00	29.00	29.00	n.a.	n.a.
Spain	17.04	19.00	20.85	14.11	14.29	13.68	13.73	13.71	13.57	13.75	n.a.
Sweden	15.00	13.00	13.50	14.50	14.50	14.50	14.50	14.50	14.50	14.50	16.25
Switzerland	8.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
United Kingdom	14.50	10.00	9.00	10.50	9.50	9.50	12.00	14.00	13.00	12.50	12.50
Australia	15.75	15.00	12.75	13.00	13.00	13.50	14.25	14.75	16.00	16.50	16.75
Japan	6.95	6.28	5.89	5.71	5.71	5.70	5.70	5.70	5.70	5.70	5.70
New Zealand	13.00	13.00	11.00	13.50	14.00	14.00	14.00	15.00	17.00	n.a.	25.00
South Africa	17.00	18.00	20.00	25.00	23.50	24.00	25.00	25.00	25.00	25.00	23.00
Argentina*	7.61	9.00	15.50	27.12	24.25	32.05	24.25	23.84	26.71	32.47	37.81
Brazil	152.40	23.81	24.00	30.00	30.50	31.00	30.00	29.50	30.50	n.a.	n.a.
Chile	49.54	64.11	30.90	60.34	69.81	60.82	47.30	47.54	n.a.	51.16	46.15
Hong Kong	16.00	10.50	13.50	12.00	11.50	11.00	10.00	10.00	9.50	9.00	8.50
Indonesia	19.25	22.00	19.75	26.00	23.50	23.50	22.50	22.50	23.50	23.00	22.00
Korea	16.50	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Malaysia	12.00	12.50	11.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00
Mexico	31.81	46.12	56.44	49.34	48.31	47.54	47.17	47.33	49.36	51.93	53.76
Philippines	18.00	18.00	18.00	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Singapore	11.83	9.33	8.98	10.33	9.88	9.40	9.08	9.03	9.03	8.73	8.48
Taiwan	15.25	10.75	10.25	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Thailand	17.00	16.00	16.00	17.00	16.50	16.50	16.50	16.50	17.00	17.00	n.a.
Venezuela	15.50	17.00	16.00	15.00	16.00	16.00	15.00	15.00	14.00	13.50	n.a.

*Percent per month.

Domestic corporate bond yields

long-term issues, at or near end of month

	1981	1982	1983	1984			1985				
	Dec	Dec	Dec	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
United States	15.50	11.75	12.63	12.63	12.37	12.25	12.00	13.00	12.50	12.38	11.25
Canada	16.18	12.74	12.89	12.90	12.62	12.42	12.08	12.95	12.46	12.24	11.34
France	17.33	15.86	14.35	12.72	12.75	12.94	12.44	12.66	12.54	12.40	12.20
Germany	10.50	8.20	8.30	7.60	7.30	7.20	7.20	7.20	7.30	7.30	7.20
Netherlands	11.03	7.80	8.51	7.77	7.61	7.51	7.33	8.00	8.22	7.87	7.62
Norway	13.36	14.13	13.25	12.75	12.75	12.75	12.75	12.75	13.25	13.25	13.25
Spain	14.76	17.10	19.84	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Sweden	12.94	13.37	12.21	13.19	13.21	12.33	12.34	12.67	13.31	13.19	13.80
Switzerland	n.a.	5.80	4.92	5.17	5.09	5.09	5.06	5.16	5.24	5.14	5.11
United Kingdom	16.55	12.34	11.57	11.79	11.45	11.64	12.06	11.98	11.55	11.56	11.61
Japan	7.70	7.55	7.09	6.99	6.51	6.21	6.46	6.98	6.93	6.82	6.70
Korea	26.90	16.00	14.20	14.60	14.90	15.00	14.70	14.70	14.70	14.60	14.70
Venezuela	17.00	18.00	18.00	19.00	18.00	18.00	18.00	18.00	18.00	17.00	n.a.

Key to data in tables

I. International markets

Data on the *international banking market size* are based on resident and nonresident Eurocurrency (i.e., foreign currency) assets and liabilities and on nonresident domestic currency assets and liabilities of banks in nearly all European countres, the Bahamas, Bahrain, Canada, Cayman Islands, Hong Kong, Japan, Netherlands Antilles, Panama, Singapore, and the United States. All assets and liabilities of international banking facilities (IBFs) of banks in the United States are treated as Eurocurrencies.

An *international bond issue* may be either a Eurobond issue or a foreign bond issue. A *Eurobond issue* is one placed principally in countries other than that of the currency in which the bond is denominated, usually through an international syndicate. A *foreign bond issue* is one issued by a nonresident borrower on the market of a single country and denominated in that country's currency. Data on new international bond issue volume include all publicly announced issues of straight bonds, convertibes, bonds with warrants, floating rate notes, and certificates of deposit with an original maturity of three years or more (one year or more beginning in 1985), whether publicly or privately placed.

An *international bank credit* may be either a Eurocurrency credit or a foreign credit. A *Eurocurrency credit* is one denominated in a currency that is foreign to the country of the bank office extending the credit. *A foreign credit* is one extended to a nonresident borrower and denominated in the domestic currency of the country in which the bank office extendng the credit is located. Data on new international bank credit volume include all publicly announced bank credits with an original maturity of one year or more (term loans, revolving lines of credit, and facilities to back up the issuance of other financial instruments such as commercial paper, short-term notes, certificates of deposit and banker's acceptances).

Data on international bond issues and bank credits through 1984 were compiled by Morgan Guaranty Trust Company. Beginning in January 1985 these data are based on figures published in the OECD's *Financial Statistics Monthly*.

II. Domestic markets

Central Bank discount rates

Rates shown are the official discount rates with the exception of:

Ireland — Short Term Facility rate.

South Africa — discount rate for 90 day banker's acceptances.

United Kingdom — rate of discount for outright purchases of 15-33 day bank bills.

Day-to-day money rates

Argentina—7-day interbank money regulated by the Central Bank.

Austria — day-to-day interbank rate.

Australia — approximate effective interest rate in the authorized short-term money market.

Belgium — day-to-day loan rate in the call money market.

Brazil — interbank overnight money.

Canada—chartered banks' day-to-day loans.

Finland — Bank of Finland call money.

France — interbank call money against private paper.

Germany — interbank call money.

Hong Kong — interbank 24-hour call rate.

Ireland — interbank call money.

Italy — interbank 48-hour call money.

Japan—Tokyo interbank call money, unconditional lenders rate.

Korea — call money.

Netherlands — open-market call money.

Norway — day-to-day interbank rate.

Philippines — interbank call loan rate.

Singapore — interbank overnight money.

South Africa — discount houses basic call rate.

Spain — day-to-day interbank rate.

Sweden — interbank call money.

Switzerland — call money.

United Kingdom — call money.

United States — federal funds rate.

Treasury bill rates

Australia — new issues of 13-week Treasury notes.

Belgium — new issue of 3-month Treasury certificates.

Brazil — 3-month Treasury bills.

Canada — 3-month Treasury bills at tender.

Ireland — 3-month central bank exchequer bills at tender.

Italy — 6-month Treasury bills.

Japan — 60- to 62-day noninterest-bearing discount government bills.

Mexico — 3-month Federal Treasury bills.

Netherlands — 3-month Treasury bills.

New Zealand — 3-month Treasury bills.

Philippines — simple average of 91-day Treasury bills at tender until June 1984. Beginning July 1984 rates refer to the weighted average interest rate on 91- to 183-day Treasury bills sold to banks under negotiated basis.

Singapore — 91-day Treasury bills at tender.

South Africa — 3-month Treasury bills at tender.

Spain — Bank of Spain 3-month certificates of deposit used for monetary correction until March 1982. New series as of April 1982, 6-month Treasury bills.

Sweden — new issues of 3-month Treasury bills until June 1982. New series as of July 1982, 6-month Treasury discount notes, market rate.

United Kingdom — 91-day Treasury bills at tender.

United States — 3-month Treasury bills.

Representative money-market rates

Australia — 3-month prime finance company paper.

Belgium — 4-month Fonds des Rentes certificates.

Canada — 3-month prime finance company paper.

Chile — Central bank 60-day fixed rate promissory notes (PDBC) at tender.

France — 3-month interbank money against private paper.

Germany — 3-month interbank deposits.

Hong Kong — 3-month interbank deposits.

Indonesia — 1-month interbank deposits.

Ireland — 3-month interbank deposits.

Italy — 3-month interbank deposits.

Japan — 3-month "gen-saki" rate.

Korea — 3-month financial bill.

Malaysia — 3-month interbank deposits.

Netherlands — 3-month interbank deposits.

New Zealand — 90-day commercial bills.

Philippines—weighted average interest rate for 90-day promissory rates.

Portugal — average of 30- to 90-day interbank deposits.

Singapore — 3-month bank acceptances.

South Africa — 90-day bank acceptances.

Spain — 1-month interbank deposits.

Switzerland — 3-month interbank deposits.

Taiwan — interbank call money.

Thailand — interbank call money.

United Kingdom — 3-month interbank deposits.

United States — 3-month prime industrial paper.

Commercial bank deposit rates

Argentina — nominal 30-day time deposits. Average of bank rates published by the Central Bank until August 1984. New series as of September 1984, 30-day acceptances maximum interest rate.

Austria — 3-month time deposits.

Australia — 3-month certificates of deposit.

Belgium — special maximum rate for 3-month time deposits in large amounts.

Brazil — 6-month certificates of deposit with prefixed yields until July 1982. New series as of August 1982, 6-month certificates of deposit reported as a spread above monetary correction which is set every month in relationship to inflation.

Canada — 3-month time deposits.

Chile — 30-day time deposits.

Denmark — time deposits of 3-months' notice.

Finland — time deposits of six-month notice.

France — 3-month time deposits of FF. 1,000,000.

Germany — 3-month time deposits in large amounts.

Hong Kong — 3-month certificates of deposit. Rate set by the Hong Kong Association of Banks.

Ireland — 3-month deposits.

Italy — 3-month time deposits of Lit. 100 million or more.

Japan — 90-day negotiable certificates of deposit issued by the Tokyo office of Morgan Guaranty Trust Company.

Korea — 3-month time deposits.

Malaysia — 3-month time deposits.

Mexico — 3-month certificates of deposit until September 1983. New series as of October 1983, 3-month promissory notes.

Netherlands — 3-month time deposits in large amounts.

New Zealand — 6-month transferable certificates of deposit.

Norway — 3-month special term deposits.

Philippines — Weighted average interest rates on 60- to 90-day time deposits of sample commercial banks.

Portugal — 90- to 180-day time deposits until May 1984. New series as of June 1984, 180-day to one-year time deposits.

Singapore — 3-month certificates of deposit.

South Africa — 3-month negotiable certificate of deposit.

Key to data in tables — continued

Spain — Deposits over 6 months and less than 1 year for Pts. 1 million or more reported by the Bank of Spain.

Sweden — 3-month certificates of deposit.

Switzerland — 3-month time deposits.

Taiwan — 3-month time deposits.

Thailand — 3-month time deposits.

United Kingdom — 3-month time deposits.

United States — 3-month negotiable certificates of deposit issued by Morgan Guaranty Trust Company.

Venezuela — 6-month negotiable certificates of deposits for domestic depositors only.

Domestic government bond yields

Austria — Austrian National Bank average yield on all outstanding government bonds.

Australia — 20-year government bonds.

Belgium — Belgium National Bank secondary market average yield on Central government bonds of more than 5 years' maturity quoted on Brussels Stock exchange.

Canada — Bank of Canada average yield on all direct government bonds due or callable in 10 years or more.

Denmark — 12% serial bonds maturing 2001 until April 1983. New series as of May 1983, 10% serial bonds maturing 2004.

Finland — rate of interest at issue on central government bonds intended for public subscription, weighted by sales of bonds in the latter half of each month.

France — INSEE secondary market weighted average yield of public sector bonds with a remaining maturity of 10 years or more.

Germany — Frankfurter Allgemeine Zeitung 10-year public authority bond average.

Ireland — 15-year government bonds.

Italy — average yield on fixed-interest government bonds, not including irredeemable bonds, weighted by the amounts in circulation, for maturities of 9-years or more.

Japan — Average yield of national government bonds with maturities of 10 years or more.

Netherlands — Central Bureau of Statistics (CBS) average yield on three latest government bonds.

New Zealand — average yield on government bonds maturing after 10 years.

Norway — 5% government bond of 1996 until December 1982. New series as of January 1983, average yield of long-term government bonds.

Philippines — weighted average interest rate of outright sales on secondary transactions for Central Bank certificates of indebtedness.

Portugal — yield of 4% Centenary Loan of 1940.

South Africa — 25-year government bonds until August 1983; 20-year Republic of South Africa bonds until April 1984; new series as of May 1984, secondary market yield for the 13% due 2005 Republic of South Africa bond.

Spain — weighted average of yields of several central government issues with original maturity of less than five years.

Sweden — 15-year government bonds until October 1983. New series as of November 1983, 5-year government bond yield index, market rate.

Switzerland — Swiss Confederation bond average.

United Kingdom — F.T. (Financial Times) Actuaries 25-year government stock.

United States — Morgan Guaranty 20-year U.S. Government Bond Index.

Venezuela — Banco Central average yield on public-sector bond issues.

Commercial bank lending rates to prime borrowers

Argentina — average rate on 30-day loans.

Austria — overdraft rate for prime borrowers, including commission.

Australia — approximate overdraft rate for prime borrowers.

Belgium — prime overdraft rate.

Brazil — prefixed rate applied to working capital loans until July 1982; monetary-corrected free rate applied to working capital loans from August 1982 to July 1983. New series as of August 1983, maximum legal rate reported as a spread above monetary correction which is set every month in relationship to inflation. Charges for fees and commissions are often added.

Canada — prime rate.

Chile — average prime rate of six major commercial banks.

Denmark — approximate rate for loans and advances to prime borrowers.

Finland — average rates on total commercial bank lending.

France — base lending rate, excluding a commission of .05% per month on highest debit balance during the month. A spread above base rate is often added.

Germany — approximate effective overdraft rate for prime borrowers.

Hong Kong — prime rate.

Indonesia — prime rate for domestic affiliates of foreign companies.

Ireland — AA corporate borrowing rate.

Italy — unsecured overdraft rate for prime borrowers.

Japan — average contracted interest rate for short-term loans of city banks. In addition, compensating balances may be required.

Korea — prime rate.

Malaysia — Bank of Commerce Berhad base lending rate.

Mexico — base rate or average cost of money for banks determined monthly by the Banco de Mexico S.A.

Netherlands — overdraft rate for prime borrowers, including commission.

New Zealand — overdraft rate for prime borrowers.

Norway — overdraft rate, including a commission of .25% per quarter on the total line of credit until January 1983. New series as of February 1983, special rate of first class, large borrowers.

Philippines — prescribed administrative ceiling for unsecured loans with maturities of 365 days and below, including charges until December 1982. New series as of January 1983, modal rate to prime borrowers.

Portugal — maximum rate for 90- to 180-day loans.

Singapore — most common overdraft rate, major banks.

South Africa — unsecured overdraft rate for prime borrowers.

Spain — preferential rate for 1-month loans calculated by the Bank of Spain.

Sweden — overdraft rate for prime industrial borrowers, commission not included.

Switzerland — unsecured overdraft rate for prime borrowers, excluding commission of .25% per quarter on average or highest outstanding debit balance in quarter.

Taiwan — maximum rate for 3- to 12-month secured loans. Rate is an indication only and may vary from actual bank lending rate which is subject to volatile interbank rates.

Thailand — prime rate.

United Kingdom — clearing bank base lending rate. A spread above base rate is often added.

United States — prime rate of Morgan Guaranty Trust Company.

Venezuela — representative rate for domestic prime borrowers only.

Domestic corporate bond yields

Canada — McLeod, Young, Weir Co. Ltd., weighted long-term bond yield index for AA corporates.

France — INSEE secondary market weighted average yield of private company bonds with a remaining maturity of 10 years or more.

Germany — Bundesbank secondary market weighted average yield of industrial bonds with a remaining maturity of more than 3 years.

Japan — secondary market yield for NTT bond maturing March 1987.

Korea — average of yields on 3-year corporate bonds guaranteed by local banks.

Netherlands — CBS average yield on three 6%-6.5% corporate bonds until December 1981. As of January 1982, CBS secondary market weighted average yield on all commercial bank issues with a quotation between 92% and 103%.

Norway — 5.75% Dalen Portland-Cement bond of 1969-1984 until December 1982. New series as of January 1983 average yield of long-term industrial bonds.

Spain — average yield for a selected group of electricity companies.

Sweden — Central Satistical Bureau average yield on industrial bonds.

Switzerland — average yield on outstanding bonds of four leading Swiss companies. Mixture changed as of January 1982.

United Kingdom — Financial Times secondary market average yield of industrial and financial company debentures and loan stocks with an average of 25 years to maturity.

United States — Salomon Brothers index of new issue yields for Aa industrial bonds with five-year call protection.

Venezuela — average of yields on 15-year bond issues of Electricidad de Caracas.

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International bank lending trends

Several significant trends in international bank lending emerge from comprehensive data now available for the full year 1984 and partial data for the first quarter of 1985. Overall growth had slowed dramatically by 1983, from the 23% pace recorded in 1981, and was only about 7% in 1984. Preliminary indications from data for the first quarter of 1985 suggest that this year's expansion in overall international bank lending is likely to remain very modest. This slowdown has been led by U.S. banks, whose outstanding international claims actually declined 9.5% last year and were virtually flat in the first quarter of this year. By contrast, non-U.S. banks' international claims rose by nearly 10% last year, Japanese banks accounting for the bulk of the growth.

A major factor in the overall slowing of international bank lending since 1981-82 has been a sharp and continuing deceleration in lending to LDCs. Following a 6½% increase in 1983, bank credit to developing countries grew by only 2% last year and is unlikely to pick up for some time to come. U.S. banks alone reduced their outstandings to LDCs in 1984 by nearly 3%. There is no evidence that *net* voluntary lending to countries that have experienced debt problems has resumed since 1982. Any new voluntary extensions of short-term trade credit have been more than offset by net repayments of existing loans. Banks have curtailed net new lending, even to developing countries that have avoided debt problems, partly out of caution, but also because many of those borrowers have accomplished significant external payments adjustments and are exercising intentional borrowing restraint.

Banks are seeking to contain their concentrations of LDC risk and to lower their LDC exposures relative to capital. By the end of 1984 the ratio of outstanding cross-border and foreign office non-local-currency claims on developing countries to the primary capital of U.S. banks involved in international lending had been reduced to below the end-1977 level. The corresponding ratio for the nine largest U.S. money center banks, which account for nearly two-thirds of all U.S. banks' claims on LDCs, was back down to the end-1978 level, thanks both to the cutback in lending and a rapid buildup of primary capital in recent years. With continuing additions to primary capital and restrained LDC lending expected for several more years, significant further improvements in these ratios are likely.

International bank lending to industrial countries as a group also has been rather subdued. It accelerated moderately in 1984, but principally through stepped-up interbank activity. International lending to nonbank entities in industrial countries expanded by only about 4%. Much of this lending, both interbank and to nonbank entities, has served to meet relatively strong U.S. credit demands. U.S. banks and corporate borrowers have often found cheaper funding from the Eurodollar market than from domestic sources. With banks remaining very cautious about lending to LDCs and with limited credit demands from other industrial countries, the shift in international bank lending toward the United States is likely to persist this year.

While net bank-intermediated inflows to the United States grew last year and again in the first quarter of this year, they accounted for only about one-quarter and one-third, respectively, of total net U.S. capital inflows during these periods. In Japan last year net bank-intermediated flows comprised an even smaller fraction of the large net capital outflows from the country. The decline in the share of direct bank intermediation in international capital flows reflects the so-called securitization in international financial markets, a trend with enduring implications for the role of banks in international finance. Widespread deregulation and liberalization of domestic and international financial markets, together with rapid innovations in financial instruments and techniques, have already resulted in much greater integration between domestic and international money and capital markets and between various sectors of the international market. The boundaries between bank credit and bond markets have become increasingly blurred. The competitiveness of banks as direct intermediators has diminished. As a consequence, for some kinds of international financing, traditional lending and deposit taking by banks will increasingly be supplanted by the issuance and acquisition of marketable paper by nonbanks. Banks will operate more as arrangers of off-balance sheet, security-related transactions. This is already happening with industrial-country borrowers with good credit standing. It also is becoming more common for some of the better-rated developing-country borrowers, which potentially opens up new sources of finance for them.

One consequence of these developments is that the monitoring of international bank lending will be more difficult, at least for a while, because statistical reporting arrangements have lagged changes in market practices. More important, these developments have increased the efficiency of financial markets in mobilizing and allocating savings worldwide. Of course, the growing integration of financial markets has generated some problems. For example, the impact of policy changes in one country is more rapidly and widely transmitted to other countries. Rapid shifts in capital flows, which have been facilitated by liberalization and deregulation, may lead to greater exchange rate volatility. The effectiveness of various national monetary policy instruments and operating procedures has been blunted. Attempting to re-regulate financial markets and impose controls on capital flows, which would be tantamount to turning back the clock, would not be the best way to deal with the problem. This would be both impractical and undesirable. Far better would be to seek other solutions, ranging from improving the transparency of international financial transactions to strengthening International Monetary

Fund (IMF) surveillance over member countries, leading to greater harmony of national policies and performance among the major industrial countries.

Statistical issues

In recent years, the quantity and quality of statistics on international bank lending have improved substantially, although their timeliness still leaves something to be desired. Particularly notable has been the broadening of the coverage of international banking statistics compiled and published by the Bank for International Settlements (BIS) and by the IMF. These statistics now encompass banks located in nearly all industrial countries as well as in the major offshore market centers, and provide an extensive breakdown by country, bank/nonbank entity, and, to a lesser degree, currency. Most of the data are on an unconsolidated basis, although officials in an increasing number of countries are requiring banks to report their international business on a consolidated balance sheet basis. So far only the United States and the United Kingdom regularly publish such statistics, although Germany recently published consolidated figures for the end of 1984. Missing are similar data for Japanese banks, which have become large international lenders.

Despite these improvements, there are still a number of difficulties in analyzing published data on international bank lending. Changes in the outstanding dollar amounts of banks' international claims from one reporting date to another are affected both by net credit flows between the reporting dates and by changes in the dollar value of existing claims denominated in other currencies. With large movements in dollar exchange rates in recent years these valuation effects have been sizable. The BIS is able to estimate the effects of exchange rate changes, and provides a considerable amount of valuation-adjusted data. Whenever possible this article uses such valuation-adjusted data in analyzing net flows of international bank credit.

Another difficulty in interpreting international banking statistics is that while coverage has improved in terms of the range of reporting banks, it is incomplete because banks in several countries do not report foreign security holdings as part of their claims for statistical reporting purposes. This is beginning to result in an underreporting of bank lending to some countries. Such underreporting could become even more significant as borrowers increasingly issue international bonds and notes, including floating rate notes (FRNs), to meet part of their financing needs as well as to repay existing banks loans, and as banks purchase sizable portions of certain issues.

Most international banking statistics are based on the country of residence of the banking office making the loan and the country of residence of the borrowing entity. While residency-basis data are useful for measuring balance of payments flows, they do not permit identification of the nationality of ownership of the bank making the loan or the country where the ultimate credit risk resides. For example, credit risk can be transferred from the country where the borrowing entity is located by a guarantee from a third party in another country or by virtue of the fact that the borrowing entity is a branch of a parent located in another country. Still another difficulty in interpreting international banking statistics arises from some of the innovations in credit extension which, under current reporting arrangements, cloud the identity of the ultimate sources and uses of

Table 1

International bank lending[1]

	Changes in outstanding claims[2]				*Outstanding claims at end-1984*
	1983		*1984*		
	$ billions	*%*	*$ billions*	*%*	*$ billions*
All banks[3]	170	6.8	190	7.2	2,749
Cross-border lending	108	5.3	130	6.2	2,176
Domestic lending[4]	62	12.3	60	11.0	573
U.S. banks[5]	4	1.1	—34	—9.5	323
Non-U.S. banks[6]	166	7.6	224	9.8	2,426
Memorandum:[7]					
BIS-reporting banks	130	6.0	151	5.9	2,613
Cross-border lending	105	6.2	126	6.0	2,153
Domestic lending[4]	25	5.9	25	5.6	460

[1] Cross-border lending in all currencies plus foreign currency lending to residents. Based on unconsolidated data. Compiled by the Morgan Bank from various published sources.
[2] Changes are adjusted for the valuation effects of exchange rate movements.
[3] Bank offices in most industrial countries (Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Luxembourg, Norway, Spain, Sweden, Switzerland, United Kingdom, and the United States) and in the major offshore market centers (Bahamas, Bahrain, Cayman Islands, Hong Kong, Netherlands Antilles, Panama, and Singapore).
[4] In foreign currency.
[5] Data for U.S. banks are on a consolidated basis and therefore not strictly comparable with the data for all banks.
[6] Data for non-U.S. banks are derived by subtracting the figures for U.S. banks from the totals for all banks.
[7] Differences between figures compiled by the Morgan Bank and those published by the BIS are explained in footnote *.

funds and alter the interest rate and currency characteristics of the initial transaction.

Lending slowdown

Gross international lending, as measured by valuation-adjusted changes in the international assets (cross-border claims in foreign and domestic currencies and domestic claims in foreign currencies) on the balance sheets of banks located in most industrial countries and offshore market centers, increased by about $190 billion, or 7.2%, during 1984 to $2.75 trillion at year-end (see Table 1, and appendix table on p. 13).* This represented a slight pickup from the previous year's increase of $170 billion, or 6.8%, but was well below growth of approximately $430 billion (22.7%) and $290 billion (12.8%) in 1981 and 1982, respectively. Gross cross-border lending alone increased by about $110 billion (5.3%) in 1983 and $130 billion (6.2%) in 1984.

The slowdown in international bank lending has been led by U.S. banks. Their total cross-border and foreign office non-local-currency claims, on a consolidated balance sheet basis, declined by $34 billion, or 9.5%, last year, following a flattening out in 1983. Comparable data on a consolidated basis are not available for all non-U.S. banks, but judging from unconsolidated data, non-U.S. banks accounted for all the growth in international bank lending in 1983-84. Indeed, a special study of international banking activity by nationality of bank ownership released earlier this year by the BIS indicated that Japanese banks were responsible for all last year's growth in international lending. The total international claims of all banks in the narrower reporting area covered by this special study (not adjusted for valuation effects) increased by $48 billion, or 2.2%, in 1984, while those of Japanese banks alone rose by $63 billion, or 14% (see Table 2). Banks of other nationalities reporting increases in their international assets last year included Italian banks, up $8.1 billion, or 10.1%, and French banks, up $6.8 billion, or 3.6%. Sizable declines were registered by U.S. banks, down $16.5 billion, or 2.6%, as well as by British and Dutch banks. A similar pattern is evident if interoffice claims (claims between offices or affiliates

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*These figures differ somewhat from those published regularly by the Bank for International Settlements (BIS). The main differences are that Morgan's figures include and the BIS' exclude foreign currency lending to residents by banks located in offshore market center countries, and Morgan's figures treat the International Banking Facilities (IBFs) of banks in the United States as separate units engaged in Eurocurrency banking whereas the BIS treats them as an integral part of their parent institution in the United States, conducting cross-border lending largely in the domestic currency. There is also a significant break in the BIS series at the end of 1983 when the coverage of BIS data for the offshore market centers was broadened to correspond more closely to that of Morgan's figures. For comparison purposes the data for BIS-reporting banks are shown as a memo item in Table 1. The BIS data, however, are used later in this article in discussing international bank lending to particular regions or countries.

Table 2

International bank lending[1]

by nationality of bank ownership

Parent country of bank	Claims at end-1984				Changes during 1984[2]			
	Total		Total, net of interoffice		Total		Total, net of interoffice	
	$ billions	% of total	$ billions	% of total	$ billions	%	$ billions	%
United States	614.5	28.1	372.6	22.3	—16.5	—2.6	—24.2	—6.1
Japan	513.7	23.5	377.5	22.6	63.0	14.0	46.5	14.0
France	197.1	9.0	172.9	10.4	6.8	3.6	6.6	4.0
United Kingdom	161.4	7.4	141.8	8.5	—9.5	—5.6	—10.2	—7.2
Germany	142.1	6.5	131.0	7.9	—1.8	—1.3	—2.4	—1.8
Canada	88.9	4.1	67.9	4.1	—0.4	—0.4	1.0	1.5
Italy	88.2	4.0	85.3	5.1	8.1	10.1	7.5	9.6
Switzerland	75.3	3.4	63.6	3.8	—1.5	—2.0	—0.2	—0.3
Netherlands	56.1	2.6	50.0	3.0	—6.2	—10.0	—7.0	—12.3
Belgium	38.5	1.8	36.4	2.2	0.4	1.0	0.3	0.8
Others	207.2	9.5	168.7	10.1	4.3	2.1	3.0	1.7
Total	2183.0	100.0	1667.7	100.0	46.7	2.2	20.9	1.3

[1] Includes cross-border assets in all currencies plus foreign currency assets vis-à-vis local residents, of banking offices in 14 industrial countries. For U.S. banks also includes cross-border assets of their branches in five offshore market centers. This reporting area is narrower than that used for measuring total international bank lending. The figures for U.S. banks include U.S. subsidiaries of foreign banks, which results in an overstatement of U.S.-owned banks' total claims and market shares. The figures for non-U.S. banks do not include their affiliates in offshore market centers, which results in an understatement of their total claims and market shares.

[2] Not adjusted for the valuation effects of exchange rate movements.

Source: BIS.

of the same parent bank) are netted out to approximate consolidated balance sheet reporting (see Table 2).

Interbank activity

The slower pace of banks' international lending in the past two years has encompassed both interbank activity and lending to nonbanks. Interbank claims constitute by far the largest portion of international banking assets, accounting for close to 70% of the total at the end of 1984. About one-third of these interbank assets consists of interoffice claims, and two-thirds are claims on unaffiliated banks. Even on a narrower definition of the interbank market, namely, claims of reporting banks on one another but excluding their claims on banks outside the designated market area, it still represented over 60% of total international banking assets.

The interbank market, broadly defined, grew by a little more than 4% between end-1983 and end-1984, only slightly faster than gross international assets of banks on an unadjusted basis (3.7%). A similar rate of expansion occurred during 1983, which represented a sharp slowing from the pace registered earlier in the 1980s.

Several factors have contributed to the slowdown in the growth of interbank assets. First, international bank lending to final borrowers, especially in developing countries but also in many industrial nations, has decelerated. Second, sensitivities to the risks entailed in interbank depositing have increased. Standards appear to have tightened as a result of the deterioration in asset quality and the losses experienced by certain banks in the past few years. Increased awareness that certain developing countries, through their banks, had drawn heavily on short-term interbank deposits for balance of payments financing also had a dampening influence. Third, pressures to increase capital-asset ratios have led some banks to limit their interbank activity in order to hold down overall asset levels. A closely related consideration that has constrained interbank depositing, which is generally conducted on narrow margins, has been banks' desires to improve returns on their assets. Finally, banks are making greater use of other instruments, such as futures and options, instead of interbank deposits for managing interest and exchange rate exposures.

Bank lending to LDCs

Last year banks further slowed their lending to developing countries. BIS-reporting banks' outstanding claims on all LDCs, except those that are offshore market centers, rose by less than $9 billion, or about 2%,

Table 3

International bank lending to developing countries[1]

		Changes in outstanding claims[2]				Outstanding claims at end-1984
		1983		1984		
		$ billions	%	$ billions	%	$ billions
Latin America:	*All banks*	7.6	(3.9)	1.6	(0.7)	242.6
	U.S. banks	0.2	(0.2)	2.1	(2.5)	86.2
	Non-U.S. banks	7.4	(6.6)	—0.5	(—0.3)	156.4
Argentina:	*All banks*	0.5	(2.2)	—1.0	(—3.7)	25.9
	U.S. banks	—0.3	(—3.0)	—0.4	(—4.8)	8.4
	Non-U.S. banks	0.8	(5.9)	—0.6	(—3.3)	17.5
Brazil:	*All banks*	1.5	(2.7)	4.7	(6.5)	75.8
	U.S. banks	—0.4	(—1.6)	3.2	(14.9)	24.8
	Non-U.S. banks	1.9	(5.6)	1.5	(3.0)	51.0
Mexico:	*All banks*	4.1	(7.0)	0.7	(1.0)	72.8
	U.S. banks	1.1	(4.7)	0.4	(1.4)	25.8
	Non-U.S. banks	3.0	(8.6)	0.3	(0.6)	47.0
Venezuela:	*All banks*	—0.7	(—3.1)	—1.7	(—6.1)	26.2
	U.S. banks	—0.3	(—2.9)	—0.3	(—3.1)	10.6
	Non-U.S. banks	—0.4	(—3.5)	—1.4	(—8.2)	15.6
Asia:	*All banks*	4.4	(8.3)	5.2	(5.5)	98.4
	U.S. banks	1.0	(3.0)	—3.5	(—10.5)	29.9
	Non-U.S. banks	3.4	(16.6)	8.7	(14.2)	68.5
Korea:	*All banks*	0.7	(3.8)	1.8	(6.1)	30.8
	U.S. banks	0.0	(0.2)	—1.5	(—12.0)	10.9
	Non-U.S. banks	0.7	(10.8)	3.3	(19.5)	19.9
Middle East and Africa:	*All banks*	6.5	(8.6)	1.9	(2.0)	93.9
	U.S. banks	0.8	(5.2)	—2.5	(—15.6)	14.7
	Non-U.S. banks	5.7	(9.4)	4.4	(5.5)	79.2
All LDCs:	*All banks*	21.5	(6.6)	8.5	(2.0)	434.9
	U.S. banks	2.0	(1.5)	—3.9	(—2.9)	129.8
	Non-U.S. banks	19.5	(10.0)	12.6	(4.2)	305.1

[1] Lending by BIS-reporting banks to developing countries that are not offshore market centers.

[2] Adjusted for the valuation effects of exchange rate movements. Data for all banks and non-U.S. banks are affected by an enlargement of the BIS-reporting area at end-1983.

Source: BIS and Bank of England.

versus nearly $22 billion, or 6.6%, in 1983 (see Table 3). The 1984 increase was considerably below the 5%-7% increase that had been widely viewed as desirable a year or two ago. U.S. banks reduced their outstanding claims on LDCs by nearly $4 billion, or almost 3%, in 1984, implying about a 4% increase in non-U.S. banks' lending to those countries.

While U.S. banks' outstanding claims on all LDCs fell last year, their loans to Latin American countries rose by $2 billion, or 2.5%, which more than accounted for the $1.4 billion increase in all banks' claims on the region, suggesting that non-U.S. banks reduced their loans to Latin America. The $1.4 billion was considerably less than the amounts disbursed under new money packages arranged in conjunction with IMF-supported adjustment programs and debt reschedulings. Whereas $6 billion in new money was disbursed to Brazil during 1984, banks' outstanding claims rose only a net $4.7 billion. Similarly, Mexico received $3 billion in new money last year, but banks' claims increased by only a net $0.7 billion. The differences can be explained, at least in part, by the fact that there were repayments of some external debt, mostly private sector, held by banks, as well as by the likelihood that some loans were charged off as losses or transferred to official export credit agencies that had insured or guaranteed the credits, thereby removing them from bank balance sheets. Similar factors, plus possibly some reductions in trade credit and/or interbank lines, accounted for declines in banks' outstanding claims on Argentina, Peru, and Venezuela, none of which received new money from banks during 1984.

BIS-reporting banks' claims on Asian LDCs rose by about $5 billion, or 5.5%, during 1984, only slightly less than the previous year's increase. U.S. banks, however, cut their outstandings to those countries by $3.5 billion or more than 10%, implying a 14% increase in lending to the region by non-U.S. banks, probably led by Japanese banks. Korea ($1.8 billion), China ($1.4 billion), Indonesia ($1 billion), India ($0.8 billion), and Thailand ($0.8 billion) accounted for all the net increase in bank loans to the area last year. Taiwan, which ran a large current account surplus, reduced its debt to foreign banks by about $850

Table 4

International bank claims on selected debtor countries at end-1984

based on residence of borrower, in billions of dollars
figures in parentheses are percent of BIS-reporting banks

	BIS-reporting banks	*Of which*			
		U.S. banks	*U.K. banks*	*German banks*	*Other banks*
Argentina	26	8.0 (31)	3.4 (13)	2.4 (9)	12.2 (47)
Brazil	76	23.9 (32)	9.3 (12)	4.8 (6)	37.7 (50)
Chile	14	6.7 (49)	2.1 (15)	0.8 (6)	4.0 (30)
Colombia	7	3.0 (43)	0.8 (11)	0.3 (5)	2.9 (42)
Ecuador	5	2.1 (45)	0.7 (15)	0.3 (6)	1.6 (34)
Mexico	73	26.5 (37)	8.8 (12)	3.5 (5)	34.0 (47)
Peru	6	2.4 (41)	0.7 (12)	0.3 (6)	2.4 (42)
Venezuela	26	10.8 (41)	2.8 (11)	1.9 (7)	10.7 (41)
Subtotal	232	83.4 (36)	28.6 (12)	14.3 (6)	105.5 (46)
Indonesia	14	3.4 (24)	1.5 (11)	1.9 (13)	7.4 (52)
Korea	31	10.0 (32)	2.8 (9)	1.0 (3)	17.1 (56)
Malaysia	11	1.7 (16)	1.7 (15)	0.6 (5)	7.2 (65)
Philippines	14	5.5 (40)	1.7 (12)	0.5 (4)	6.0 (44)
Taiwan	6	2.8 (48)	0.5 (9)	0.5 (8)	2.1 (35)
Thailand	7	2.2 (30)	0.4 (6)	0.4 (6)	4.4 (59)
Subtotal	83	25.6 (31)	8.5 (10)	4.9 (6)	44.2 (53)
Algeria	8	1.0 (13)	0.7 (8)	0.8 (10)	5.6 (70)
Egypt	7	1.3 (18)	0.8 (11)	1.0 (14)	4.0 (57)
Israel	6	2.1 (33)	0.5 (7)	1.6 (26)	2.1 (34)
Morocco	4	0.9 (20)	0.4 (8)	0.5 (10)	2.7 (60)
Nigeria	8	1.5 (19)	2.4 (29)	1.5 (18)	2.7 (33)
Turkey	5	2.1 (40)	0.4 (8)	1.7 (33)	1.0 (20)
Subtotal	39	8.8 (23)	5.0 (13)	7.1 (18)	18.0 (46)
Hungary	7	0.8 (11)	0.8 (12)	1.1 (16)	4.1 (61)
Poland	9	0.7 (8)	1.2 (13)	2.3 (26)	4.9 (54)
Romania	4	0.2 (5)	0.6 (16)	0.3 (9)	2.7 (70)
Soviet Union	16	0.1 (1)	2.3 (14)	3.2 (20)	10.8 (66)
Yugoslavia	10	2.4 (25)	1.7 (18)	1.6 (17)	4.0 (42)
Subtotal	46	4.2 (9)	6.6 (15)	8.5 (19)	26.4 (58)
25 countries	400	121.9 (31)	48.7 (12)	34.9 (9)	194.0 (49)
Other developing and East European countries	99	14.8 (15)	10.8 (11)	7.8 (8)	65.2 (66)
Total	498	136.7 (27)	59.6 (12)	42.7 (9)	259.2 (52)

Source: BIS, Federal Reserve Board, Bank of England, and Deutsche Bundesbank.

million. While only the Philippines among major Asian borrowers has experienced debt-servicing difficulties, some U.S. banks apparently have adopted a more cautious attitude toward the region. Moreover, borrowing needs have diminished as a consequence of relatively rigorous adjustment policies pursued by a number of Asian LDCs. Several countries in the area, notably Korea, Malaysia, India, and Thailand, also have turned increasingly to the issuance of securities, especially FRNs, for part of their financing needs. As noted earlier, these are not fully reflected in bank claims data, even though banks may have purchased sizable portions — up to three-quarters in some cases — of such issues.

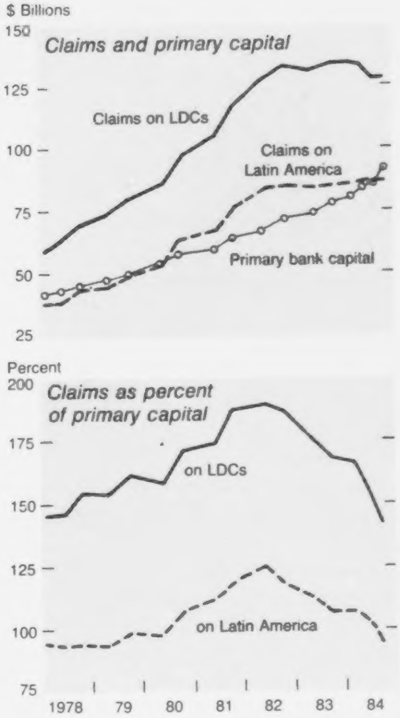
Bank lending to developing countries in the Middle East and Africa decelerated sharply in 1984, with actual declines occurring in outstandings to Israel, Nigeria, and some Middle East oil exporters. U.S. banks reduced their claims on developing countries in this area by $2.5 billion, or more than 15%, last year.

Partial data suggest that the pace of bank lending to developing countries remains very modest this year. For example, gross new publicized medium- and long-term bank credit commitments to developing countries completed during the first six months of 1985 amounted to only $7.5 billion, or $15 billion at an annual rate, compared with $29 billion completed during calendar 1984. Part of this drop is attributable to the lower volume of new money loans arranged for troubled debtor countries so far this year. However, new voluntary lending commitments also have decreased, and none of these has been to countries that have experienced debt-servicing difficulties since 1982. While there have been reports of some voluntary lending to several troubled debtor countries in the form of short-term trade financing, there is no evidence of a resumption of *net* voluntary lending last year to those countries for which complete figures are available. Data for the first quarter of 1985 reported by banks in the United States, United Kingdom, and Germany show a decline in outstandings to problem countries.

To date only two countries — the United States and the United Kingdom — have regularly published details on the geographic distribution of international claims of their do-

Chart 1

All U.S. banks



mestically based banks on a consolidated balance sheet basis. However, selected details as of end-1984 for German-based banks on a consolidated basis were recently disclosed for the first time.

Table 4 shows these data for 25 major developing countries and Eastern European borrowers as of December 1984, giving both outstanding amounts for U.S., U.K., and German banks as well as their respective shares of all BIS-reporting banks' claims on those countries. For comparison purposes, these data are shown on the basis of residence of the borrower and are not adjusted to reflect guarantees and other risk transfers. While U.S. banks accounted for approximately 30% of the outstanding claims on these 25 major borrowers, their share was 36% for the eight Latin American countries combined, but only 23% for the six Middle East and African countries and less than 10% in the Eastern European subgroup. U.K. banks accounted for just over 12% of all banks' claims on the 25 countries, and their shares of the regional subgroups did not deviate much from this overall figure. German banks' accounted for less than 9% of all BIS-reporting banks' claims on the 25 countries, ranging from 6% shares for the Latin American and Asia subgroups to over 18% shares for the Middle East and African and Eastern European groups.

U.S. banks' ratios improve

The slowdown in U.S. banks' lending to LDCs since late 1982, combined with a substantial buildup in their primary capital (which includes loan loss reserves), has resulted in sizable declines in U.S. banks' LDC exposures relative to their capital. By the end of 1984, the cross-border and foreign office non-local-currency claims of U.S. banks on developing countries, adjusted for guarantees and other risk transfers, had declined to 141% of their primary capital from a peak of 186% at the end of 1982 (see Chart 1). The ratio of claims on Latin American countries (approximately two-thirds of U.S. banks' outstandings to all LDCs) to capital had dropped to 93% by the end of 1984 from a 1982 peak of about 120%. Both ratios had thus fallen to or below levels prevailing in 1977-78, the first years for which such data are available. Similar patterns have occurred for the nine largest U.S. money center banks, which account for over 60% of all U.S. banks' claims on developing countries, with their loan-to-capital ratios having fallen from 288% at end-1982 to 224% at end-1984 for all LDCs and from 177% to 146% for Latin American countries (see Chart 2). Each of the largest money center banks has reduced its loan-to-capital ratios with respect to most of the largest individual LDC debtors during the past year or so. For example, between the end of 1983 and the end of 1984 the five largest U.S. money center banks reduced their combined loan-to-capital ratios for Brazil from nearly 56% to less than 49%, and for Mexico from 42% to 35%.

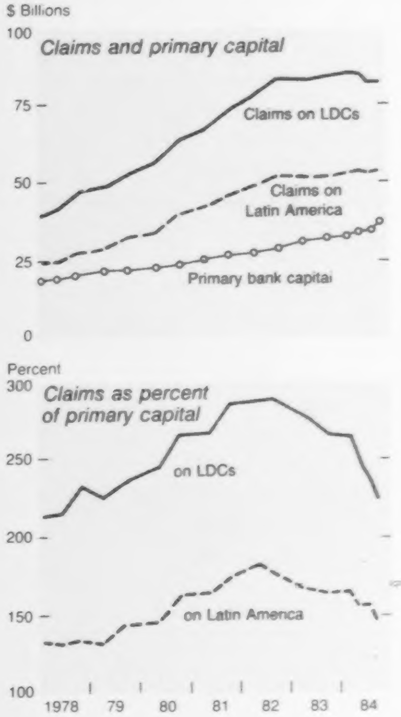
If U.S. banks' primary capital continues to grow during the remainder of the 1980s at the same average rates recorded in the past five years — 13% per annum for all reporting banks and 12% per annum for the nine money center banks — and the growth of their LDC exposures is limited to 4% annually, LDC loan-to-capital ratios would drop to 93% for all banks and 155% for the nine money center banks by the end of the decade.

The changing role of banks

The role of banks as international financial intermediaries has been

Chart 2

Nine largest
U.S. money center banks



changing rapidly as some of the traditional forms of international bank lending have been replaced by the issuance of securities and other marketable paper. The securitization of international financial markets accelerated last year and is continuing unabated in 1985. This is dramatically illustrated by the rapid expansion of gross new issue volume in the international bond market, and the reduction in the gross amount of new medium-term bank credit commitments in the form of syndicated loans (see Table 5). Last year the amount raised via new international bond issues, including FRNs, was more than double the amount raised through voluntary syndicated bank term loans, and more than three times greater in the first six months of 1985. Proceeds of some of these bond issues have been used to repay outstanding bank loans in advance of maturity. Moreover, a growing share of new international bank credit commitments is in relatively newer forms (note issuance facilities, revolving underwriting facilities, etc.) that back up the issuance of other financial instruments and as contingent commitments are not reported directly on the balance sheets of banks unless activated by actual borrowings.

Banks have been among the major issuers of international bonds to secure longer-term funding and to augment their capital resources. Banks also have evidenced a growing preference for acquiring marketable paper which is more liquid than ordinary loans, thereby increasing their portfolio management flexibility. On balance, however, securitization has tended to diminish the role of banks as direct intermediaries of international financial flows. This is illustrated by an examination of net bank-intermediated capital flows in the context of total net capital flows for the United States and Japan in recent years.

As Table 6 shows, net bank-intermediated flows have been a major factor in the changes in total U.S. capital flows since 1982. Whereas in 1982 banks in the United States increased their net foreign assets by $42 billion, last year they reduced their net assets by $15 billion for a swing of $57 billion. Likewise, whereas U.S. non-bank entities increased their deposits in banks abroad by nearly $18 billion and marginally reduced their borrowing from foreign banks in 1982, last year they withdrew deposits from abroad and increased their borrowings from foreign banks for net inflows of more than $13 billion. Thus, the combined net bank-intermediated U.S. capital flows swung from net outflows of nearly $60 billion in 1982 to net inflows of $5 billion in 1983 and more than $28 billion in 1984. This net swing of $88 billion between 1982 and 1984 was nearly as large as the increase in the U.S. current account deficit from $9 billion to $102 billion. Yet, in absolute terms last year's net inflows intermediated by banks, at $28 billion, were equivalent to only

Table 5

New international bond issues and bank credit commitments

publicly announced, medium- and long-term billions of dollars

	1981	*1982*	*1983*	*1984*	*Jan-Jun 1985*
International bond issues	52.8	75.5	77.1	111.5	80.1
Floating rate notes and CDs	11.3	15.3	19.5	38.2	32.1
Fixed rate instruments	41.5	60.2	57.6	73.3	48.0
International bank credits	147.7	103.6	80.7	117.3	44.2
Syndicated loans	94.6	98.2	67.2	62.0	25.5
Involuntary new money loans	—	—	14.3	11.3	1.0
Voluntary loans	94.6	98.2	52.9	50.7	24.5
Other international credit facilities	53.1	5.4	13.5	55.3	18.7
Merger-related standbys	39.1	--	4.0	28.0	—
Other facilities[1]	14.0	5.4	9.5	27.3	18.7

[1] Facilities extended by banks to back up the issuance of other financial instruments such as short-term Euronotes, certificates of deposit, bankers acceptances, and commercial paper.

Source: OECD.

Table 6

U.S. net capital flows

billions of dollars
negative sign denotes outflow

	1982	*1983*	*1984*
Net flows intermediated by banks	—59.7	5.2	28.4
By banks in U.S.[1]	—41.6	20.6	15.1
Changes in foreign assets	—107.0	—31.4	—10.8
Changes in liabilities to foreigners	65.4	52.0	25.9
By banks abroad[2]	—18.1	—15.4	13.3
Changes in U.S. nonbanks' deposits	—17.7	—16.7	3.5
Changes in U.S. nonbanks' borrowings	—0.4	1.3	9.8
Other net capital flows	68.9	36.4	73.3
Total net capital flows[3]	9.2	41.6	101.7

[1] For own account.
[2] BIS-reporting banks.
[3] Total net capital flows include errors and omissions. Equals current account balance with sign reversed.

Table 7

Japanese net capital flows

billions of dollars
negative sign denotes outflow

	1982	*1983*	*1984*
Net flows intermediated by banks	—8.3	—11.1	—0.6
By banks in Japan[1]	—7.2	—11.1	1.8
Changes in foreign assets	—8.0	—18.6	—22.0
Changes in liabilities to foreigners	0.8	7.5	23.8
By banks abroad[2]	—1.1	0.0	—2.4
Changes in Japanese nonbanks' deposits	—0.1	—0.1	—0.7
Changes in Japanese nonbanks' borrowings	—1.0	0.1	—1.7
Other net capital flows	—1.4	—9.7	—34.6
Total net capital flows[3]	—6.9	—20.8	—35.0

[1] Excludes foreign securities purchased, and securities issued abroad, by banks in Japan.
[2] BIS-reporting banks.
[3] Total net capital flows include errors and omissions. Equals current account balance with sign reversed.

about one-quarter of total net U.S. capital inflows (including errors and omissions), with securities transactions accounting for a much larger portion. Preliminary data for the first quarter of 1985 indicate that there were net inflows of more than $9.5 billion by banks in the United States for their own account, still only about one-third of total net U.S. capital inflows during the period. Complete first quarter data on U.S. nonbanks are not yet available.

The role of bank-intermediated transactions in Japanese net capital exports is shown in Table 7. The surprising fact is that while they were relatively important in 1982 and 1983, last year when Japan's current account surplus climbed to $35 billion they accounted for only a small fraction of Japan's overall net capital outflows. Banks in Japan increased their liabilities to foreigners by more than they added to their foreign assets, although apparently Japanese banks' net purchases of foreign securities, which amounted to an estimated $6 billion in 1984, are not fully included in the banking statistics. Nonbanking entities resident in Japan have very few deposits in foreign banks, and have been repaying their borrowings from banks abroad. Thus, combined net capital outflows recorded as having been intermediated by banks declined to less than $1 billion last year, from $8 billion in 1982, a negative swing of $7 billion, whereas Japan's current account surplus increased by $28 billion over this period. Securities transactions have become predominant in Japan's net capital exports.

A variety of factors has contributed to the trend toward greater securitization of international capital flows and away from direct bank intermediation. The acceleration of this trend in 1984 and again this year can be partly explained by conditions that have been favorable to the issuance of bonds, particularly declining inflation expectations and interest rates since mid-1984. The market for FRNs has been boosted by heavy purchases by Japanese banks. Their acquisitions of FRNs were not subject to the participation limits and term funding requirements that applied to their syndicated term loans. Another factor has been the rapidly growing use of new instruments and financing techniques. Currency and interest rate swaps, for example, have enabled borrowers to gain access to a wider range of capital markets and to lower their cost of funds by taking advantage of differing investor perceptions of individual borrowers and instruments in these markets, while at the same time satisfying their own currency and interest rate preferences.

Deregulation and liberalization of financial markets, both domestic and international, have also promoted increased securitization, partly by intensifying competition among financial institutions and partly by widening the range of alternatives for borrowers and investors. During the 1980s a number of industrial countries have eased or abolished exchange controls. The steady liberalization of Japanese financial markets, particularly the increased access by issuers to the domestic and Euroyen bond markets and increased opportunities for purchases of foreign securities by a widening spectrum of Japanese investors, has been an important development. The abolition of withholding taxes by the United States in July 1984, and subsequent removal of withholding taxes by Germany and France, also contributed to international security issuance and investment. Earlier this year, French authorities also reopened the Euro-French franc bond market, and Germany eased the guidelines for issuing international DM bonds and allowed the use of several additional instruments such as floating rate notes and zero coupon bonds.

Another important factor contributing to the securitization trend is the reduced profitability and competitiveness of direct bank intermediation. The spate of loan problems and operating losses experienced by a number of banking organizations has undoubtedly changed perceptions of the relative quality of bank-issued liabilities. This has caused some nonbank suppliers of funds to shift part of their assets from bank deposits toward obligations issued by highly rated sovereign and corporate borrowers, and made it possible for such borrowers to raise funds more cheaply by going directly to money and capital markets than by borrowing from banks. Indeed, some of these borrowers are able to raise funds more cheaply than banks. The resultant pressure on bank lending spreads, together with higher capital adequacy requirements, has reduced the profitability of direct bank intermediation for certain kinds of business.

Shifts in the sources and destinations of net international capital flows also have tended to reduce the relative role of directly intermediated bank flows and to enhance that of securities flows. Among the most important was the disappearance of the OPEC current account surplus in the early 1980s, with the underlying preference of OPEC investors for bank deposits, and the emergence of large surpluses in Japan and several European countries, where investors, especially institutions, place relatively more emphasis on marketable securities than do OPEC investors. Likewise, the deficits of many developing countries, which have typically relied heavily on borrowing from banks, have contracted as a result of adjustment efforts and the lessened willingness of banks to finance those deficits, while the current account deficit of the United States, where many borrowers are able to raise funds by issuing securities that are highly regarded in the world's capital markets, has widened dramatically.

Many of these forces, particularly the deregulation and liberalization of financial markets, the diminished profitability of certain kinds of direct bank intermediation, and the ongoing innovation in financial instruments and techniques, are likely to have an enduring impact on the role of banks in international financial markets and capital flows. Banks will still be major participants, but increasingly as arrangers of financing involving the issuance of marketable paper rather than as makers of traditional, on-balance-sheet loans.

Statistical appendix

For key to data in tables see June 1985 issue.

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Information herein is from sources considered to be reliable but is furnished without responsibility on the part of Morgan Guaranty Trust Company.

Nominal effective exchange rates

Index numbers, 1980-82 average=100.

	United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Belgium	Neth-erlands	Spain	Swit-zerland	Den-mark	Norway	Swe-den
1980	90.7	100.4	95.5	96.0	106.5	100.0	108.4	99.8	99.4	105.9	100.2	106.5	95.4	105.1	98.2	103.9
1981	99.5	100.2	105.8	104.0	100.4	97.2	98.8	102.1	98.9	101.8	97.1	99.4	98.3	99.2	100.1	103.3
1982	109.8	99.4	98.6	100.1	93.1	102.8	92.8	98.1	101.7	92.3	102.7	94.1	106.3	95.7	101.7	92.8
1983	114.2	100.8	107.8	92.0	87.3	107.6	90.3	91.6	103.6	90.0	105.0	78.4	111.5	96.4	99.4	82.2
1984	122.4	97.3	113.0	94.2	84.4	107.4	86.7	88.1	103.6	86.9	104.0	77.4	110.5	93.9	97.8	84.3
1984																
July	124.2	95.4	110.8	90.3	84.6	107.7	87.3	87.7	104.1	89.3	104.0	77.3	107.9	93.7	97.4	84.4
August	124.0	97.0	111.4	91.9	84.3	107.3	86.6	87.9	103.8	89.3	103.8	76.6	108.8	93.6	97.1	84.6
September	127.3	96.7	112.0	92.1	83.6	106.2	85.9	87.1	103.2	88.9	103.1	76.9	109.3	93.2	96.9	85.6
October	128.5	96.6	112.0	93.6	83.7	106.3	85.7	85.3	103.2	88.7	103.2	77.0	109.8	93.4	97.1	85.6
November	126.8	96.5	112.5	95.0	84.0	106.7	85.6	85.2	103.4	89.3	103.5	77.4	110.2	94.2	95.5	85.1
December	129.5	96.7	112.0	94.8	83.6	106.1	86.0	83.7	103.2	89.3	103.0	77.8	109.5	94.5	95.5	85.0
1985																
January	132.0	96.9	110.5	93.8	83.7	106.2	86.3	81.0	103.4	89.9	103.0	78.1	107.8	95.0	95.7	85.0
February	136.4	95.3	110.0	86.8	83.5	105.8	85.4	81.4	103.3	89.3	102.5	77.6	105.9	94.4	95.8	85.5
March	136.9	93.2	111.3	81.5	83.7	105.9	83.7	84.0	103.0	89.0	102.5	77.2	105.8	94.3	95.7	84.6
April	131.7	93.6	111.5	74.2	84.5	106.7	83.0	88.1	103.8	89.2	102.9	77.5	108.0	94.5	96.0	83.6
May	132.0	92.9	111.5	76.3	84.4	106.5	82.9	89.2	103.5	89.0	102.9	76.5	107.4	93.7	96.0	83.8
June	130.4	93.2	112.1	74.3	84.5	106.5	83.0	90.5	103.5	88.9	103.1	75.8	107.7	94.2	95.8	83.8
May 24	130.9	93.0	111.3	77.3	84.4	106.6	82.5	89.7	103.8	89.0	102.9	76.8	107.5	94.4	96.0	83.8
31	131.5	92.6	111.3	74.7	84.5	106.6	82.8	90.2	103.1	88.9	103.1	76.1	107.5	93.8	95.8	83.6
June 7	130.6	93.1	112.1	74.1	84.5	106.6	83.0	89.9	103.8	89.1	103.1	76.2	107.5	94.4	96.0	83.8
14	131.1	93.1	112.1	74.8	84.4	106.4	83.3	90.0	103.5	88.8	103.0	75.5	107.3	94.2	95.9	83.8
21	130.1	93.2	112.3	74.3	84.6	106.7	82.8	90.8	103.4	88.8	103.1	75.5	108.0	94.1	95.6	83.8
28	130.0	93.4	112.0	74.2	84.5	106.5	83.0	91.2	103.2	88.8	103.0	75.4	108.1	94.0	95.6	83.9
July 5	129.2	93.7	112.0	74.0	84.6	106.5	83.0	91.9	103.3	88.9	103.0	75.4	107.9	94.0	95.6	83.9

Real effective exchange rates – industrial countries

Index numbers, 1980-82 average=100.

	United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Belgium	Neth-erlands	Spain	Swit-zerland	Den-mark	Norway	Swe-den
1980	89.4	99.6	103.0	93.0	102.1	103.5	103.5	99.9	100.2	107.5	99.9	100.9	98.7	103.5	96.6	101.2
1981	100.6	100.0	104.6	102.7	100.1	97.3	98.7	102.3	99.1	100.3	97.6	99.4	98.7	99.2	100.9	102.1
1982	109.9	100.4	92.3	104.3	97.8	99.2	97.8	97.9	100.7	92.3	102.5	99.8	102.6	97.3	102.5	96.7
1983	112.7	103.1	96.6	100.0	96.1	99.3	100.1	92.0	101.7	92.0	101.8	90.6	104.4	98.8	101.3	91.5
1984	118.2	101.2	97.6	105.1	96.8	96.5	101.1	89.3	102.7	90.9	100.1	95.0	99.4	96.5	100.1	96.9
1984																
July	120.0	99.5	95.4	101.1	97.9	96.6	101.7	89.0	103.0	90.8	100.3	95.1	96.7	95.3	99.1	97.0
August	119.5	101.2	96.0	103.3	97.2	96.1	101.5	89.4	103.0	91.3	99.9	94.3	97.3	95.8	98.5	97.8
September	121.5	101.4	96.8	103.7	96.3	95.2	101.0	88.3	102.0	90.8	99.2	95.6	97.9	97.2	99.5	98.9
October	123.6	100.4	96.0	105.0	96.5	95.2	100.8	86.8	101.8	90.6	98.8	96.0	98.8	96.6	100.1	99.1
November	122.0	100.4	96.2	106.4	97.0	95.3	101.2	86.9	102.5	91.7	98.7	96.9	98.7	98.0	98.3	98.3
December	123.9	101.1	95.7	106.6	98.0	94.5	101.4	85.4	102.3	91.2	98.0	97.6	98.0	98.1	98.0	98.7
1985																
January	126.2	101.4	94.1	105.4	97.0	94.9	102.6	83.1	102.3	92.1	97.4	98.6	96.4	97.8	97.4	99.4
February	129.7	100.0	93.5	97.4	97.1	94.6	101.6	83.9	102.0	91.5	96.4	98.5	95.0	96.3	98.1	100.2
March	129.8	98.0	94.1	91.5	97.3	94.2	100.8	86.6	101.6	91.2	95.9	98.1	95.6	97.5	98.4	99.7
April	125.2	98.2	93.7	83.3	98.3	94.8	100.5	91.3	102.4	91.5	95.9	98.9	96.4	98.3	98.5	98.6
May	125.2	97.7	93.5	85.7	98.3	94.6	101.0	92.2	101.9	91.4	95.5	98.2	96.0	97.7	98.3	99.4
June	123.5	98.1	93.6	83.5	98.5	94.5	101.9	93.8	101.8	91.3	95.2	97.6	96.3	98.5	98.3	99.8

Real effective exchange rates — developing countries

Index numbers, 1980-82 = 100

	Argentina	Brazil	Chile	Colombia	Mexico	Peru	Venezuela	Hong Kong	Indonesia	Korea	Malaysia	Philippines	Singapore	Taiwan	Israel	Turkey
1980	116.4	84.8	95.3	94.7	104.0	93.1	91.3	98.4	89.6	95.9	96.2	93.3	98.6	100.9	92.9	100.2
1981	107.7	103.2	108.1	100.4	114.1	103.2	99.6	99.4	99.6	101.2	99.3	101.2	102.7	102.6	99.3	104.4
1982	75.9	112.0	96.5	104.9	81.9	103.8	109.1	102.2	110.8	102.9	104.5	105.5	98.7	96.5	107.7	95.4
1983	71.2	85.6	88.8	104.0	78.0	97.7	116.1	96.6	95.7	97.3	112.7	95.1	97.1	93.1	119.5	92.8
1984	79.9	85.5	89.8	99.3	91.5	105.8	85.6	100.3	96.7	95.8	119.0	107.4	95.8	95.4	118.3	90.6
1984																
June	83.4	83.4	90.3	99.0	90.0	106.9	77.3	98.2	96.5	95.1	118.4	101.0	95.2	94.5	117.5	91.6
July	85.6	86.4	91.3	99.5	90.9	108.7	79.6	100.5	98.8	96.0	120.7	104.7	95.6	96.6	117.6	90.7
August	85.7	86.3	92.4	99.3	91.3	109.1	83.6	100.8	97.4	96.2	121.3	106.4	96.2	97.5	119.1	91.8
September	88.7	86.6	93.0	100.1	94.2	109.7	85.8	103.6	97.4	97.6	123.3	113.8	96.9	98.9	122.0	94.0
October	82.0	89.9	89.6	98.4	96.3	107.9	87.5	105.3	97.8	97.2	120.9	112.4	96.0	98.1	122.0	94.5
November	73.7	88.4	88.1	97.4	95.8	104.8	87.8	104.6	96.5	96.2	119.5	109.0	94.9	96.6	122.0	95.4
December	76.1	91.1	87.0	98.0	96.1	101.6	89.2	107.0	98.7	96.7	120.6	111.9	95.3	97.3	114.2	95.5
1985																
January	75.0	94.1	88.1	98.9	97.7	98.3	91.3	108.6	100.0	96.8	121.9	118.3	95.4	98.1	109.4	98.0
February	77.2	93.0	89.4	99.8	100.2	96.9	93.5	111.4	101.2	97.8	120.4	123.6	95.5	99.4	119.5	102.4
March	76.5	96.7	82.9	96.6	100.9	92.2	94.5	111.3	100.0	96.1	119.7	123.5	95.5	98.5	116.0	101.9
April	76.2	89.0	81.6	91.4	99.2	91.1	92.9	108.0	98.8	92.0	119.6	122.3	94.1	96.1	112.6	96.3
May	76.7	84.2	82.9	88.6	99.0	91.3	95.2	108.4	96.8	90.9	119.6	125.6	92.9	95.6	113.4	94.0

International banking market size

at end of period, billions of dollars

	1980	*1981*	*1982*	*1983*	*1984*			
				Dec	*Mar*	*Jun*	*Sep*	*Dec*
Gross claims								
Eurocurrencies, on residents and nonresidents	**1 563**	**1 929**	**2 146**	**2 253**	**2 339**	**2 330**	**2 322**	**2 352**
On nonbanks	431	557	634	665	685	679	676	684
On banks	1 132	1 372	1 512	1 588	1 654	1 651	1 646	1 668
In dollars	1 173	1 504	1 694	1 797	1 841	1 850	1 857	1 887
In other currencies	390	425	452	456	498	480	465	465
Domestic currencies, on nonresidents	**345**	**365**	**398**	**398**	**400**	**406**	**393**	**397**
On nonbanks	139	128	132	136	136	140	138	137
On banks	206	237	266	262	264	266	255	260
In dollars	173	188	211	217	206	218	208	210
In other currencies	172	177	187	181	194	188	185	187
Total	**1 908**	**2 294**	**2 544**	**2 651**	**2 739**	**2 736**	**2 715**	**2 749**
On nonbanks	570	685	766	801	821	819	814	821
On banks	1 338	1 609	1 778	850	1 918	1 917	1 901	1 928
In dollars	1 346	1 692	1 905	2 014	2 047	2 068	2 065	2 097
In other currencies	562	602	639	637	692	668	650	652
Gross liabilities								
Eurocurrencies, to residents and nonresidents	**1 578**	**1 954**	**2 168**	**2 278**	**2 382**	**2 360**	**2 349**	**2 383**
To nonbanks	278	372	432	479	500	503	492	500
To official monetary institutions	128	112	91	88	85	88	94	96
To other banks	1 172	1 470	1 645	1 711	1 777	1 769	1 763	1 787
In dollars	1 193	1 539	1 741	1 846	1 882	1 905	1 912	1 949
In other currencies	385	415	427	432	480	455	437	434
Domestic currencies, to nonresidents	**280**	**263**	**250**	**258**	**262**	**277**	**274**	**277**
To nonbanks	82	74	70	71	71	71	72	77
To banks	198	189	180	187	191	206	202	200
In dollars	135	126	116	133	128	140	140	143
In other currencies	145	137	134	125	134	137	134	134
Total	**1 858**	**2 217**	**2 418**	**2 536**	**2 624**	**2 637**	**2 623**	**2 660**
To nonbanks	360	446	502	550	571	574	564	577
To banks and official institutions	1 498	1 771	1 916	1 986	2 053	2 063	2 059	2 083
In dollars	1 328	1 665	1 857	1 979	2 010	2 045	2 052	2 092
In other currencies	530	552	561	557	614	592	571	568
Net market size	**957**	**1 155**	**1 265**	**1 385**	**1 403**	**1 421**	**1 408**	**1 421**

International bond issues and bank credits

millions of dollars

	1982	1983	1984	1985 Apr	1985 May	1985 Jun	Jan-Jun 1985	Jan-Jun 1984
By country of borrower								
Industrial countries	**108 772**	**102 652**	**177 077**	**17 234**	**16 863**	**21 631**	**100 857**	**97 330**
Australia	7 213	5 737	5 816	838	698	1 480	5 181	2 158
Austria	2 068	1 290	2 254	112	241	350	1 395	1 427
Belgium	1 528	2 168	1 847	336	21	610	1 597	887
Canada	15 856	8 571	13 124	400	579	1 786	9 230	4 929
Denmark	2 725	3 941	4 825	440	222	503	1 956	2 651
Finland	1 446	1 271	1 713	60	56	181	840	1 011
France	14 813	8 626	11 298	914	208	2 174	6 954	5 456
Germany	1 101	3 197	2 165	50	287	329	1 056	1 163
Greece	806	1 291	1 551	200	450	187	1 306	550
Ireland	1 136	1 869	1 377	191	39	267	898	264
Italy	6 687	4 876	6 933	1 958	771	395	6 973	2 220
Japan	8 397	14 428	17 526	1 763	1 425	1 652	10 853	11 263
Netherlands	1 000	1 213	1 973	133	123	383	896	1 527
New Zealand	4 786	802	3 206	—	268	488	1 219	1 152
Norway	2 601	1 969	1 324	135	—	1 268	1 887	641
Portugal	1 684	1 030	1 796	68	136	103	1 120	1 045
South Africa	1 889	1 300	1 422	201	73	217	692	968
Spain	2 675	4 977	4 931	616	695	300	2 645	3 248
Sweden	3 181	7 144	11 256	512	2 644	491	5 955	8 958
United Kingdom	2 836	2 726	8 899	2 198	3 648	1 937	9 806	3 938
United States	21 109	20 276	65 054	5 829	4 160	5 953	27 134	40 047
*Other**	3 233	3 950	6 785	282	123	399	1 266	1 827
Developing countries	**49 023**	**38 256**	**39 725**	**1 687**	**3 402**	**1 505**	**12 024**	**23 082**
Latin American countries	**29 667**	**15 592**	**17 464**	**286**	**152**	**130**	**1 297**	**11 806**
Argentina	1 565	1 750	4 212	—	—	—	—	12
Brazil	5 972	4 475	6 649	—	—	—	—	6 500
Chile	1 194	1 405	784	—	—	—	—	784
Colombia	776	552	589	—	52	—	52	229
Mexico	9 968	5 138	3 918	—	—	—	—	3 883
Venezuela	7 241	237	—	—	—	—	—	—
*Other***	2 951	2 035	1 312	286	100	130	1 245	398
Asian countries	**11 723**	**12 978**	**15 893**	**811**	**2 196**	**1 232**	**7 632**	**7 351**
India	555	968	945	21	—	10	348	352
Indonesia	1 822	2 363	1 924	—	400	24	424	1 074
Korea	3 277	4 387	6 201	418	429	908	3 118	2 647
Malaysia	2 872	2 197	2 605	92	120	81	1 011	1 390
Philippines	888	878	925	—	925	—	925	—
Thailand	414	747	1 221	—	75	41	666	683
Other	1 895	1 438	2 072	280	248	168	1 141	1 005
Middle Eastern and African countries	**7 633**	**9 686**	**6 368**	**590**	**1 055**	**144**	**3 096**	**3 925**
Algeria	86	1 993	821	—	700	—	1 300	200
Nigeria	2 069	2 343	985	—	—	—	—	985
Turkey	277	1 106	741	500	28	—	579	600
Other	5 201	4 244	3 821	90	327	144	1 217	2 140
Eastern European countries	**1 479**	**1 294**	**3 244**	**480**	—	**457**	**2 035**	**1 652**
Hungary	340	741	1 386	25	—	357	651	885
Soviet Union	1 131	93	1 051	333	—	—	539	528
*Other****	8	460	807	122	—	100	845	239
International organizations****	**11 353**	**16 201**	**13 287**	**1 706**	**2 499**	**870**	**9 756**	**5 497**
By type of instrument and currency								
International bond issues	**78 042**	**76 329**	**107 411**	**12 347**	**16 636**	**13 975**	**80 107**	**50 624**
Eurobonds	51 645	48 501	79 458	9 816	14 504	11 885	67 038	35 052
U.S. dollar	43 959	38 428	63 593	7 125	11 325	9 197	51 837	27 888
German mark	2 588	3 817	4 604	435	1 133	811	3 677	2 239
British pound	748	1 947	3 997	433	525	185	2 446	1 757
Japanese yen	374	212	1 212	478	180	—	1 866	348
European composite units	1 980	2 019	3 032	738	658	666	3 198	1 535
Other	1 995	2 078	3 020	607	682	1 026	4 016	1 285
Foreign bonds	26 397	27 828	27 953	2 531	2 132	2 090	13 068	15 572
U.S. dollar	5 946	4 545	5 487	308	509	200	2 157	3 287
German mark	2 952	2 671	2 243	145	65	113	802	1 018
British pound	1 214	811	1 292	92	—	—	157	744
Swiss franc	11 432	14 299	12 626	662	1 031	1 178	5 985	7 915
Japanese yen	3 418	3 772	4 628	1 195	387	337	2 990	1 783
Other	1 435	1 730	1 677	129	140	262	977	825
International bank credits	**92 585**	**82 074**	**125 922**	**8 760**	**6 129**	**10 488**	**44 565**	**76 937**
Eurocurrency credits	85 015	74 222	112 605	8 548	5 676	10 069	41 693	71 478
Foreign credits	7 570	7 852	13 317	212	453	419	2 873	5 459
Total	**170 627**	**158 403**	**233 333**	**21 107**	**22 765**	**24 463**	**124 672**	**127 561**

*Includes multinational organizations. **Includes unallocated. ***Includes COMECON institutions. ****Includes regional development organizations.

Eurocurrency deposit rates

prime banks' bid rates, at or near end of month

	1981	1982	1983	1984	1985					
	Dec	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun
Eurodollar										
overnight	12.87	9.25	9.50	8.63	8.50	8.44	8.81	8.31	7.50	8.00
one month	13.31	9.13	9.69	8.38	8.31	8.88	8.69	8.38	7.56	7.63
three months	13.75	9.19	9.81	8.63	8.44	9.44	9.00	8.69	7.63	7.75
six months	14.81	9.50	10.06	9.13	8.69	10.00	9.44	9.00	7.88	7.88
twelve months	14.75	9.63	10.38	9.81	9.31	10.75	10.13	9.75	8.38	8.25
Euro-Canadian dollar										
one month	15.37	10.00	9.13	9.88	9.63	10.38	10.38	9.50	9.50	9.00
three months	15.37	10.00	9.50	10.81	9.63	11.19	10.56	9.81	9.50	9.38
six months	16.37	10.13	9.75	10.06	9.63	11.75	10.69	10.38	9.63	9.50
twelve months	16.37	10.25	10.00	10.44	9.88	12.06	12.00	10.75	9.94	9.63
Euro-French franc										
one month	15.75	23.00	12.13	10.69	10.31	10.63	10.63	10.31	10.13	10.50
three months	17.00	24.00	12.19	10.69	10.56	11.00	10.81	10.44	10.25	10.63
six months	18.00	22.00	12.31	11.00	11.00	11.44	11.25	10.75	10.38	10.75
twelve months	18.25	19.75	12.63	11.38	11.63	11.88	11.56	10.94	10.63	11.25
Euromark										
one month	10.44	5.88	5.25	5.50	5.75	5.81	5.69	5.75	5.50	5.44
three months	10.50	5.88	5.88	5.50	6.00	6.06	5.88	5.81	5.50	5.44
six months	10.56	5.94	6.13	5.56	6.06	6.38	6.06	5.88	5.56	5.50
twelve months	10.25	6.00	6.38	5.56	6.13	6.56	6.25	6.06	5.56	5.63
Euro-Dutch guilder										
one month	10.75	5.13	5.81	5.69	6.00	6.81	6.69	6.94	7.00	6.75
three months	10.75	5.19	6.00	5.75	6.13	7.06	6.81	6.94	6.88	6.69
six months	10.75	5.38	6.25	5.81	6.19	7.13	6.88	6.94	6.88	6.69
twelve months	10.75	5.63	6.38	5.94	6.31	7.31	6.94	7.00	6.81	6.69
Euro-Swiss franc										
one month	8.87	2.81	3.38	4.44	5.38	5.50	5.19	5.00	5.13	5.13
three months	9.25	3.25	3.75	4.56	5.38	5.75	5.50	5.19	5.13	5.25
six months	9.25	3.44	3.94	4.63	5.31	5.81	5.56	5.25	5.06	5.25
twelve months	8.50	3.44	3.94	4.69	5.19	5.63	5.44	5.25	5.00	5.25
Eurosterling										
one month	15.37	10.56	9.13	9.50	13.13	14.00	13.56	12.75	12.63	12.69
three months	15.69	10.44	9.31	9.88	12.50	13.88	13.13	12.69	12.44	12.44
six months	15.69	10.31	9.50	10.00	11.94	13.13	12.31	12.44	12.50	12.25
twelve months	15.37	10.31	9.81	10.19	11.88	12.69	11.94	12.13	12.01	11.94
Euroyen										
one month	6.12	6.75	6.25	6.19	6.19	6.50	6.25	6.13	6.31	6.19
three months	6.12	6.75	6.31	6.19	6.31	6.38	6.31	6.25	6.25	6.25
six months	6.87	7.10	6.38	6.13	6.25	6.31	6.31	6.31	6.25	6.25
twelve months	6.87	6.81	6.44	6.13	6.25	6.31	6.31	6.31	6.31	6.31
European currency unit										
one month	14.63	12.44	8.81	9.25	9.94	9.94	10.00	9.38	9.31	9.38
three months	14.75	12.31	9.19	9.38	9.94	10.06	10.13	9.56	9.31	9.38
six months	15.00	12.00	9.44	9.50	9.94	10.13	10.13	9.69	9.38	9.38
twelve months	14.56	11.19	9.63	9.63	9.94	10.13	10.25	9.88	9.50	9.38

International bond yields

average yield of several actively traded, high quality issues with a maturity of 7 to 12 years at or near end of month

	1982	1983	1984		1985					
	Dec	Dec	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
United States companies										
Eurodollar	11.16	11.59	11.17	11.25	11.05	11.65	11.73	11.24	10.58	10.49
Euromark	7.24	7.34	7.08	6.95	7.19	7.57	7.35	7.11	6.90	6.91
Swiss franc	5.70	5.83	5.70	5.73	5.85	5.95	5.86	5.74	5.69	5.69
European governments										
Eurodollar	12.53	12.65	12.00	12.04	11.72	12.40	12.29	11.97	11.20	11.17
Euromark	8.10	8.12	7.43	7.39	7.54	7.88	7.61	7.54	7.37	7.38
Swiss franc	5.40	5.63	5.43	5.24	5.17	5.35	5.34	5.21	5.20	5.22
European currency unit	n.a.	11.77	10.79	10.64	10.62	10.65	10.44	10.39	10.10	10.17

Central bank discount rates

at or near end of month

	1982	1983	1984	1985					Current	
	Dec	Dec	Dec	Feb	Mar	Apr	May	Jun	Jul 12 1985	effective since
United States	8.50	8.50	8.00	8.00	8.00	8.00	7.50	7.50	7.50	May 17, 85
Canada	10.05	9.96	10.09	11.52	10.65	10.02	9.76	9.58	9.45	Jul 11, 85
Austria	4.75	3.75	4.50	4.50	4.50	4.50	4.50	4.50	4.50	Jun 28, 84
Belgium	11.50	10.00	11.00	11.00	11.00	11.00	9.50	9.25	9.50	Jul 9, 85
Denmark	10.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	Oct 27, 83
Finland	8.50	9.50	9.50	9.00	9.00	9.00	9.00	9.00	9.00	Feb 1, 85
France	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	Aug 31, 77
Germany	5.00	4.00	4.50	4.50	4.50	4.50	4.50	4.50	4.50	Jun 29, 84
Ireland	14.00	12.25	14.00	14.00	14.00	12.75	12.75	12.00	12.00	Jun 20, 85
Italy	18.00	17.00	16.50	15.50	15.50	15.50	15.50	15.50	15.50	Jan 4, 85
Netherlands	5.00	5.00	5.00	5.50	5.50	5.50	5.50	5.50	5.50	Feb 1, 85
Norway	9.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	Jun 6, 83
Portugal	19.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00	Aug 10, 83
Spain	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	Jul 26, 77
Sweden	10.00	8.50	9.50	9.50	9.50	9.50	11.50	11.50	10.50	Jul 12, 85
Switzerland	4.50	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	Mar 18, 83
United Kingdom	10.00	9.00	9.38	13.75	13.75	12.25	12.25	12.25	11.81	Jul 12, 85
Japan	5.50	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	Oct 22, 83
New Zealand	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	Jul, 81
South Africa	15.45	18.50	21.75	22.33	22.33	21.25	20.25	19.25	18.25	Jul 4, 85
Argentina*	10.56	15.10	18.19	19.06	20.78	25.82	32.50	6.50	n.a.	Jun 15, 85
Korea	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	Mar 29, 82
Philippines	6.30	8.05	12.11	11.33	11.91	n.a.	n.a.	n.a.	n.a.	Mar, 85
Singapore	7.00	7.00	6.75	6.50	6.50	6.00	5.50	5.50	5.50	May 21, 85
Thailand	12.50	13.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	Nov, 84
Venezuela	13.00	11.00	11.00	11.00	10.00	10.00	9.00	9.00	9.00	May 28, 85

*Percent per month.

Day-to-day money rates

monthly averages

	1981	1982	1983	1984		1985					
	Dec	Dec	Dec	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
United States	12.37	8.95	9.47	9.43	8.38	8.35	8.50	8.58	8.27	7.97	7.51
Canada	14.53	10.63	8.78	11.22	10.50	9.75	9.88	10.41	10.25	9.75	9.56
Austria	7.50	6.00	5.75	7.25	7.63	6.75	6.50	6.75	6.88	6.13	6.13
Belgium	12.45	9.29	7.39	10.07	9.12	9.22	8.99	9.13	9.45	8.84	8.14
Finland	11.30	11.50	16.70	15.48	15.07	14.57	14.18	14.00	13.96	13.80	13.77
France	15.46	12.88	12.27	11.18	10.95	10.56	10.65	10.67	10.48	10.17	10.22
Germany	10.58	6.15	5.61	5.51	5.62	5.52	5.78	5.85	5.70	5.67	5.55
Ireland	16.88	14.54	12.19	14.25	14.50	14.63	14.75	14.63	13.63	12.63	12.00
Italy	20.63	19.00	17.88	17.25	17.25	16.06	16.00	16.00	15.77	15.46	15.25
Netherlands	10.67	5.31	5.84	5.57	5.60	5.78	5.75	6.93	6.74	7.15	6.81
Norway	18.60	11.00	12.30	13.10	12.50	10.70	12.80	11.60	13.40	13.00	13.00
Spain	18.73	15.81	16.77	12.96	12.11	11.35	12.12	11.99	10.42	12.61	n.a.
Sweden	13.95	9.31	11.52	11.64	11.88	10.58	13.50	13.50	13.49	14.89	16.00
Switzerland	3.38	1.25	1.88	1.50	1.50	2.63	1.75	2.50	2.00	2.25	2.00
United Kingdom	9.13	6.70	7.78	7.55	6.31	7.38	11.94	10.60	12.38	11.26	10.17
Argentina*	12.84	11.04	4.56	10.92	10.88	10.89	11.14	13.34	14.78	15.12	n.a.
Japan	6.70	6.92	6.44	6.10	6.41	6.17	6.16	6.42	6.07	6.01	6.15
South Africa	12.75	14.15	16.06	21.50	21.13	22.19	21.56	21.50	21.50	19.81	18.60
Argentina	6.98	12.77	14.65	17.75	17.75	18.63	18.63	20.35	23.74	32.00	24.52
Brazil	103.74	150.42	184.69	244.59	272.02	378.76	287.93	337.15	n.a.	n.a.	n.a.
Hong Kong	10.75	9.13	13.90	7.23	6.80	6.94	6.18	6.15	7.21	5.88	6.35
Korea	14.40	13.84	11.40	10.90	10.00	8.90	9.30	9.70	9.30	9.50	9.00
Philippines	14.70	16.12	31.18	32.17	15.22	23.15	19.80	27.80	23.97	n.a.	n.a.
Singapore	3.96	11.45	7.05	6.29	6.01	5.40	6.07	5.30	4.69	5.75	5.18

*Percent per month.

Treasury bill rates

bond equivalent yields, at or near end of month

	1981	1982	1983	1984		1985					
	Dec	Dec	Dec	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
United States	11.90	8.15	9.28	8.71	7.99	7.88	8.87	8.42	8.08	7.63	7.05
Canada	14.41	9.80	9.71	10.50	9.84	9.50	11.27	10.40	9.77	9.51	9.33
Belgium	16.22	12.42	11.00	10.90	10.90	10.85	10.85	10.60	9.63	9.13	9.02
Ireland	18.13	15.25	12.01	14.80	15.10	14.59	14.54	13.77	13.43	12.21	11.29
Italy	21.36	19.11	16.95	14.90	14.69	13.75	13.46	13.38	14.31	14.22	n.a.
Netherlands	9.75	5.63	5.63	5.63	5.88	6.31	6.51	6.75	7.00	6.75	6.75
Spain	n.a.	15.28	14.46	12.42	n.a.	11.97	12.04	10.45	11.85	10.33	10.27
Sweden	n.a.	12.90	11.75	12.04	11.83	13.53	14.28	14.33	14.47	16.48	16.64
United Kingdom	15.35	9.96	9.04	9.27	9.33	11.89	13.91	12.77	12.26	12.16	12.33
Australia	13.27	9.39	8.54	10.98	12.27	12.22	13.51	14.82	14.72	14.25	n.a.
Japan	5.42	5.42	4.91	4.91	4.91	4.91	4.91	4.91	4.91	4.91	4.91
New Zealand	11.25	11.25	7.80	13.50	13.50	17.50	17.45	19.50	23.40	21.00	n.a.
South Africa	14.55	14.62	18.43	21.82	21.94	23.05	23.01	22.45	21.92	18.78	16.00
Brazil	92.62	115.40	179.15	273.03	273.03	273.03	273.03	273.03	n.a.	n.a.	n.a.
Mexico	33.23	57.44	53.78	47.06	48.67	48.07	50.00	58.15	57.69	63.34	62.47
Philippines	13.22	14.54	15.99	48.67	47.14	35.69	30.92	34.29	34.22	n.a.	n.a.
Singapore	3.03	2.74	2.59	2.80	2.91	2.93	2.93	2.97	2.94	3.07	2.79

Representative money market rates

bond-equivalent yields on major short-term (mostly 3-4 month) money market instruments other than Treasury bills, at or near end of month

	1981	1982	1983	1984		1985					
	Dec	Dec	Dec	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
United States	12.96	8.94	9.89	8.97	8.34	8.17	9.18	8.94	8.39	7.70	7.70
Canada	15.25	9.95	9.87	10.80	10.10	9.65	11.80	10.55	10.20	9.80	9.70
Belgium	16.00	12.35	11.00	10.75	10.70	10.70	10.70	10.45	10.10	9.25	8.90
France	15.25	12.75	12.19	10.56	10.69	10.31	10.69	10.63	10.31	10.25	10.25
Germany	10.50	6.20	6.30	5.80	5.75	5.85	6.25	6.20	5.90	5.80	5.60
Ireland	18.50	15.75	12.19	15.38	15.13	14.63	14.75	13.75	12.75	12.75	11.69
Italy	21.00	19.00	17.88	17.25	17.25	16.00	16.13	15.75	15.25	15.00	14.75
Netherlands	11.00	5.25	6.00	5.94	5.75	6.50	7.19	6.88	7.13	6.94	6.69
Portugal	13.80	15.05	24.11	24.51	24.57	24.57	24.53	24.61	24.52	n.a.	n.a.
Spain	15.52	16.55	18.48	12.95	12.13	12.27	12.22	12.15	12.34	12.49	n.a.
Switzerland	10.12	3.88	3.88	5.00	5.00	5.63	6.13	5.75	5.38	5.38	5.38
United Kingdom	15.69	10.50	9.31	9.72	9.88	12.50	13.88	13.06	12.56	12.44	12.44
Australia	16.00	10.65	9.50	11.75	12.50	13.55	14.60	15.60	15.70	15.05	n.a.
Japan	6.30	6.80	6.42	6.30	6.29	6.26	6.32	6.27	6.25	6.25	6.30
New Zealand	16.05	16.75	12.10	15.25	15.25	18.75	22.75	25.00	23.50	23.20	n.a.
South Africa	15.47	15.26	19.12	22.11	22.78	24.07	24.12	23.50	22.09	19.35	17.35
Chile	30.46	55.90	20.68	46.24	20.68	20.68	30.42	27.86	38.93	32.85	n.a.
Hong Kong	14.18	10.13	12.84	8.76	8.26	7.85	7.64	8.28	7.35	6.96	7.00
Indonesia	14.48	18.50	19.50	19.00	19.00	19.00	20.50	22.00	19.00	18.00	17.50
Korea	15.69	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	3.00
Malaysia	9.50	8.50	9.80	10.00	10.30	9.50	9.30	10.01	9.50	12.00	7.75
Philippines	17.70	15.96	15.61	38.67	33.21	29.38	26.95	24.73	23.43	n.a.	n.a.
Singapore	7.81	8.69	8.44	6.69	7.00	6.03	6.44	6.06	5.31	5.25	5.31
Taiwan	10.94	9.94	7.65	6.17	8.07	6.78	9.14	7.76	6.45	6.98	6.47
Thailand	14.29	12.25	16.00	12.00	12.00	14.00	17.75	16.50	16.00	n.a.	13.00

Commercial bank deposit rates

at or near end of month

	1981	*1982*	*1983*	*1984*		*1985*					
	Dec	*Dec*	*Dec*	*Nov*	*Dec*	*Jan*	*Feb*	*Mar*	*Apr*	*May*	*Jun*
United States	12.62	8.25	9.70	8.85	8.35	8.06	9.22	8.80	8.25	7.50	7.57
Canada	15.20	9.85	9.82	10.75	10.05	9.60	11.75	10 50	10.15	9.75	9.65
Austria	9.63	6.25	6.50	7.63	7.50	6.94	6.88	6.88	6.88	6.50	6.50
Belgium	15.50	12.25	11.25	10.63	10.63	10.75	10.87	10.25	9.50	9.00	8.75
Denmark	10.00	9.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Finland	5.00	4.25	5.25	5.25	5.25	5.25	4.75	4.75	4.75	4.75	4.75
France	9.16	8.24	7.66	7.14	7.04	6.85	6.90	6.90	6.82	6.67	6.69
Germany	9.50	6.00	5.90	5.30	5.25	5.35	5.55	5.70	5.45	5.30	5.15
Ireland	18.38	15.25	11.75	14.75	14.63	14.25	14.25	13.50	12.00	11.75	11.25
Italy	13.25	13.25	13.25	11.64	11.64	11.00	11.00	10.96	10.96	10.88	10.88
Netherlands	11.00	5.38	6.13	5.81	5.69	6.38	7.06	6.81	7.00	6.81	6.63
Norway	12.75	13.50	12.75	12.75	12.75	12.25	13.00	12.75	12.75	12.40	12.25
Portugal	14.00	15.00	21.50	28.00	27.00	27.00	27.00	27.00	27.00	27.00	27.00
Spain	11.78	12.53	12.62	11.67	11.64	11.34	11.02	10.80	10.61	10.83	n.a.
Sweden	12.65	12.15	11.70	11.50	11.45	13.10	13.65	13.70	13.77	16.13	16.57
Switzerland	8.75	3.00	3.50	4.63	4.50	5.00	5.75	5.25	4 88	4.88	5 13
United Kingdom	15.69	10.31	9.31	9.75	9.88	13.13	13.75	13.00	12.50	12.38	12.31
Australia	15.65	10.20	10.40	11.46	12.75	13.78	13.82	14.95	15.55	14.93	n.a.
Japan	6.50	7.00	6.50	6.43	6.38	6.42	6.50	6 36	6.36	6.36	6.30
New Zealand	15.50	16.50	11.50	15.50	15.25	17.00	18.75	20.00	23.00	23.50	n.a.
South Africa	14.75	15.25	20.13	22.00	22.88	24.13	23.75	23.63	22.25	20.25	18.00
*Argentina**	7.13	8.50	14.50	23.42	31.23	23.42	23.01	25.89	29.59	32.88	7.00
Brazil	110.05	21.00	23.00	26.50	27.00	26.00	25.50	26.50	n.a.	n.a.	n.a.
Chile	32.24	47.09	20.57	52.68	20.68	20.19	30.29	30.00	38.61	32.85	28.80
Hong Kong	12.50	7.50	9.00	7.50	7.00	5.50	5.50	5.00	4.50	4.00	3.50
Korea	14.40	7.60	7.60	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Malaysia	10.00	8.40	7.75	10.02	9.58	9.50	9.50	9.66	9.42	9.67	8.17
Mexico	31.82	52.54	57.15	47.45	47.45	47.45	47.45	51.89	54.50	55.90	59.50
Philippines	13.35	14.10	14.96	32.47	31.01	27.07	24.36	22.12	23.88	n.a.	n.a.
Singapore	7.50	8.25	7.44	6.19	6.13	5.44	6.01	5.82	5.01	4.88	5.07
Taiwan	10.75	7.50	7.00	6.50	6.50	6.50	6.50	6.25	6.25	6.25	6.00
Thailand	10.00	10.00	10.00	13.00	13.00	13.00	13.00	13.00	16.00	n.a.	13.00
Venezuela	14.75	15.50	12.00	13.00	12.50	12.00	13.00	11.50	11.50	10.00	n.a.

*Percent per month.

Domestic government bond yields

long-term issues, at or near end of month

	1981	*1982*	*1983*	*1984*		*1985*					
	Dec	*Dec*	*Dec*	*Nov*	*Dec*	*Jan*	*Feb*	*Mar*	*Apr*	*May*	*Jun*
United States	14.33	10.61	12.00	11.64	11.61	11.28	12.09	11.92	11.64	10.71	10.62
Canada	15.27	11.69	12.02	11.81	11.66	11.38	12.30	11.93	11.50	10.76	10.88
Austria	10.37	8.81	8.02	8.07	8.04	8.00	8.00	8.06	8.06	8.01	7.87
Belgium	13.99	12.66	11.89	11.47	11.56	11.56	11.58	11.50	11 49	10.78	10.65
Denmark	20.91	20.14	12.96	14.92	14.60	13.66	13.74	13.33	12.87	12.26	12.16
Finland	10.98	10.64	11.16	10.84	10.73	10.84	10.91	10.39	10.34	10.45	10.46
France	16.44	15.40	13.96	12.36	12.70	12.12	12.25	12.27	11.98	11.72	11.83
Germany	9.71	7.90	8.38	7.20	7.17	7.35	7.71	7.44	7.30	7.10	7.02
Ireland	18.28	14.54	14.25	15.25	14.90	14.57	14.74	13.55	13.08	13.17	12.71
Italy	21.39	19.70	17.69	15.23	14.52	13.22	13.25	13.48	13.53	n.a.	n.a.
Netherlands	11.28	8.16	8.58	7.65	7.72	7.42	7.93	8.06	7.73	7.58	7.39
Norway	12.37	13.32	12.50	12.00	12.00	12.50	12.00	12.38	12.38	12.38	12.70
Portugal	17.39	16.63	22.11	21 21	22.23	20.34	20.69	20.21	n.a.	n.a.	n.a.
Spain	16.20	15.92	17.25	14.96	13.93	13.29	13.44	13.49	n.a.	n.a.	n.a.
Sweden	12.80	13.01	12.30	12.16	12.04	12 39	13.23	12.93	13.42	13.70	13.48
Switzerland	5.39	4.23	4.53	4.62	4.60	4.68	4.86	4.89	4.75	4.74	4.79
United Kingdom	15.02	10.62	9.94	9.96	10.25	10.65	10.56	10.34	10.42	10.51	10.45
Australia	15.00	13.00	13.65	13.30	13.40	13.12	13.70	13.85	14.05	13.70	n.a.
Japan	8.11	7.96	7.45	6.61	6.36	6.37	7.19	6.97	6.85	6.60	6.53
New Zealand	12.55	12.84	10.50	16 60	16.90	17.09	17.35	17.50	18.35	18.25	n.a.
South Africa	13.33	11.31	13.64	15.90	16.55	17.25	17.85	16.85	16.40	15.85	15.15
Philippines	13.01	13.64	14.47	34.77	18.54	21.15	24.20	13.69	12.75	n.a.	n.a.
Venezuela	12.50	15.00	13.50	14.50	14.00	13.00	13.50	13.00	12.50	12.50	12.50

Commercial bank lending rates to prime borrowers

at or near end of month

	1981	1982	1983	1984		1985					
	Dec	Dec	Dec	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
United States	15.75	11.50	11.00	11.25	10.75	10.50	10.50	10.50	10.50	10.00	9.50
Canada	17.25	12.50	11.00	12.00	11.25	11.00	11.50	11.75	10.75	10.50	10.50
Austria	13.50	11.75	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25	8.50
Belgium	18.00	15.50	13.75	14.00	14.00	14.00	14.00	14.00	13.50	12.50	12.00
Denmark	15.00	14.00	10.00	10.50	10.50	10.50	10.50	11.00	10.50	10.50	10.50
Finland	9.84	8.95	10.18	10.63	10.68	10.69	10.30	10.36	10.38	10.37	n.a.
France	14.00	12.25	12.25	12.00	12.00	11.50	11.50	11.50	11.50	11.25	11.25
Germany	13.00	8.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75
Ireland	17.25	16.50	13.75	13.75	15.75	15.75	15.75	15.75	14.50	14.50	14.00
Italy	22.50	20.75	18.75	18.00	18.00	17.00	17.00	17.00	17.00	17.00	17.00
Netherlands	12.00	6.25	7.00	6.50	6.25	6.75	7.75	7.50	7.13	7.75	7.75
Norway	13.75	14.50	13.50	13.00	13.00	11.50	12.88	12.50	12.50	12.90	12.70
Portugal	20.50	23.50	30.00	29.00	29.00	29.00	29.00	29.00	29.00	29.00	29.00
Spain	17.04	19.00	20.85	14.29	13.68	13.73	13.71	13.57	13.75	13.76	n.a.
Sweden	15.00	15.00	13.50	14.50	14.50	14.50	14.50	14.50	14.50	16.25	16.25
Switzerland	8.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
United Kingdom	14.50	10.00	9.00	9.50	9.50	12.00	14.00	13.00	12.50	12.50	12.50
Australia	15.75	15.00	12.75	13.00	13.50	14.25	14.75	16.00	16.50	16.75	17.75
Japan	6.95	6.28	5.89	5.71	5.70	5.70	5.70	5.70	5.70	5.70	6.70
New Zealand	13.00	13.00	11.00	14.00	14.00	14.00	15.00	17.00	n.a.	25.00	n.a.
South Africa	17.00	18.00	20.00	23.50	24.00	25.00	25.00	25.00	25.00	23.00	22.00
Argentina*	7.61	9.00	15.50	24.25	32.05	24.25	23.84	26.71	32.47	37.81	8.50
Brazil	152.40	23.81	24.00	30.50	31.00	30.00	29.50	30.50	n.a.	n.a.	n.a.
Chile	49.54	64.11	30.90	69.81	60.82	47.30	47.54	51.00	51.16	46.15	47.28
Hong Kong	16.00	10.50	13.50	11.50	11.00	10.00	10.00	9.50	9.00	8.50	8.00
Indonesia	19.25	22.00	19.75	23.50	23.50	22.50	22.50	23.50	23.00	22.00	21.50
Korea	16.50	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Malaysia	12.00	12.50	11.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	11.00
Mexico	31.81	46.12	56.44	48.31	47.54	47.17	47.33	49.36	51.93	53.76	54.92
Philippines	18.00	18.00	18.00	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Singapore	11.83	9.33	8.98	9.88	9.40	9.08	9.03	9.03	8.73	8.48	8.28
Taiwan	15.25	10.75	10.25	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Thailand	17.00	16.00	16.00	16.50	16.50	16.50	16.50	17.00	17.00	n.a.	16.50
Venezuela	15.50	17.00	16.00	16.00	16.00	15.00	15.00	15.00	15.00	14.00	n.a.

*Percent per month.

Domestic corporate bond yields

long-term issues, at or near end of month

	1981	1982	1983	1984		1985					
	Dec	Dec	Dec	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
United States	15.50	11.75	12.63	12.37	12.25	12.00	13.00	12.50	12.38	11.25	11.25
Canada	16.18	12.74	12.89	12.62	12.42	12.08	12.95	12.46	12.24	11.34	n.a.
France	17.33	15.86	14.35	12.75	12.94	12.44	12.66	12.54	12.40	12.20	12.67
Germany	10.50	8.20	8.30	7.30	7.20	7.20	7.20	7.30	7.30	7.20	n.a.
Netherlands	11.03	7.80	8.51	7.61	7.51	7.33	8.00	8.22	7.87	7.62	7.41
Norway	13.36	14.13	13.25	12.75	12.75	12.75	12.75	13.25	13.25	13.25	13.50
Spain	14.76	17.10	19.84	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Sweden	12.94	13.37	12.21	13.21	12.33	12.34	12.67	13.31	13.19	13.80	n.a.
Switzerland	n.a.	5.80	4.92	5.09	5.09	5.06	5.16	5.24	5.14	5.18	n.a.
United Kingdom	16.55	12.34	11.57	11.45	11.64	12.06	11.98	11.55	11.56	11.61	11.54
Japan	7.70	7.55	7.09	6.51	6.21	6.46	6.98	6.93	6.82	6.70	6.63
Korea	26.90	16.00	14.20	14.90	15.00	14.70	14.70	14.70	14.60	14.70	14.30
Venezuela	17.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	17.00	17.00	n.a.

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August 1985

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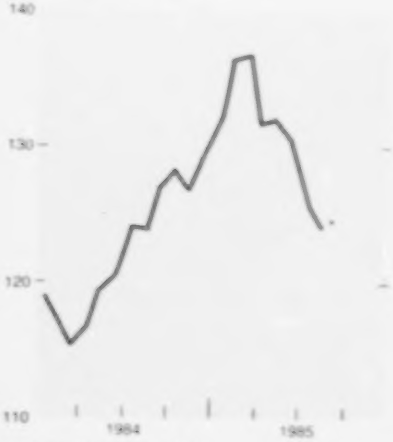
Nominal effective dollar exchange rate

1980-1982 = 100



* latest plotting August 12

The lower dollar

The dollar has undergone a sizable but orderly decline. In early August it stabilized close to its level of a year ago, but negative sentiment persists. On a trade-weighted basis the dollar is now 12% lower than at its late February peak (see Chart 1). It has declined about 19% against the mark and 25% against sterling, but only 10% against the yen (see Chart 2). The Canadian dollar, with a 30% weight in the dollar index, has appreciated only 3%.

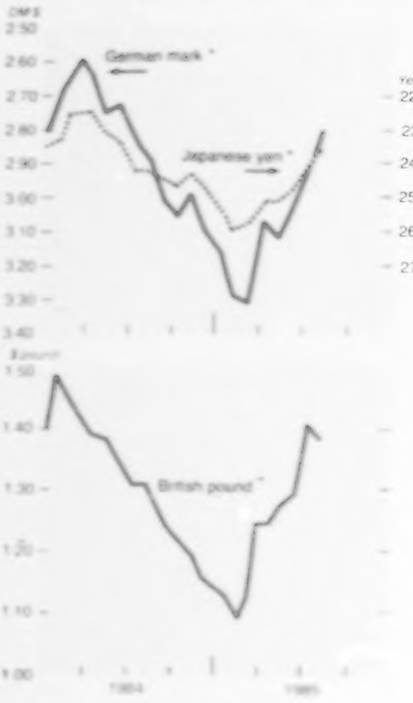
The dollar's drop owes much to the slowdown in U.S. economic growth and lower U.S. interest rates. The U.S. economy has been in a growth recession for some time. Real GNP in the second quarter was only 1.9% higher than a year ago, compared with the 7.5% growth achieved from mid-1983 to mid-1984. The unemployment rate has been roughly unchanged for a full year. The growth slowdown mainly reflects domestic demand, which contributed 3.3% to real GNP in the latest four quarters, down from 9.1% in the previous twelve months.

The leakage from the trade deficit has remained unchanged at around 1.5% of GNP in the latest four quarters. But, with slow domestic demand, that leakage has meant stagnation in the manufacturing sector. By June industrial production was only 1.9% higher than a year ago, compared with a 12-month rise of 13.5% in June 1984 (see Chart 3). Manufacturing employment in July was down by 210,000 from its January peak, although employment continues to increase in sectors of the economy not facing import competition. Overall private, non-farm employment has risen by 1.1 million since January.

Some economic pickup is expected in the second half of this year. Projections range from 3% or so among private forecasters to the Administration's optimistic 5%. This recovery is predicated on the effect of significantly lower interest rates on rate-sensitive sectors, stronger inventory accumulation, and some leveling out of the trade deficit. However, a vigorous and lasting recovery is far from assured. The ballooning of the trade deficit to $13.4 billion in June, compared with its $11.8 billion monthly average for the first half as a whole, marks an important setback. Pervasive weakness in the manufacturing sector could unsettle both business investment and consumer perceptions about income and employment prospects. Inventory restocking will likely be modest, given high real interest rates and the wider economic uncertainties.

Chart 2

Selected exchange rates

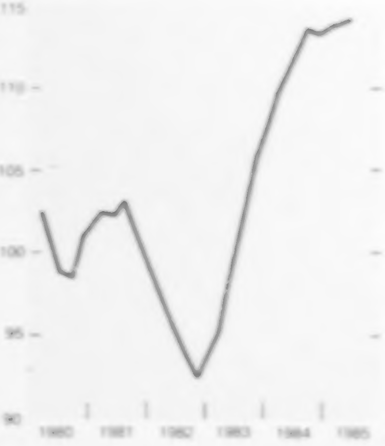


* latest plotting August 12

Chart 3

U.S. Industrial production

1980 = 100



Interest rates have declined sharply in the United States since late-summer 1984, and by much more than abroad (see Table 1). By early August, the three-month Eurodollar rate had fallen to about 8% from 12% in June 1984. Interest rates in Continental Europe have declined more gradually. In Japan they are virtually unchanged. British rates are sharply higher than a year ago. As a result, the dollar-mark interest rate differential has dropped from 6.3% to 3.3% and the dollar-yen differential from 5.9% to 1.6%. The sterling differential has reversed from 2.7% in favor of the dollar to 3.4% in favor of sterling.

In the latter part of 1984, U.S. market interest rates eased as the economy began to limp, reversing the upward pressures engendered by the Federal Reserve's restrictive policy designed to curb the runaway growth of the first half of that year. Inflationary expectations receded, thanks to continued moderation in unit labor costs, declines in commodity prices, and the strong dollar. At first, the Federal Reserve merely followed market interest rates, while its overall policy remained tight as indicated by slow growth of M1 and a soaring dollar. By early 1985, the Fed began to ease aggressively; it was increasingly concerned by the negative impact of an exceptionally strong dollar on manufacturing output, employment, and profitability. By June M1 growth reached an annualized 12% from its 1984 fourth-quarter base, far above the 4%-7% target. In July, the Federal Reserve ratified its easier policy stance; not only did it change its target base period for M1 to the 1985 second-quarter average, thus forgiving the earlier overshoot, but also it widened the target growth range to 3%-8%.

The dollar also has come under a cloud due to the effective failure to resolve the federal budget impasse. Following months of muddle, Congress finally adopted a budget resolution at the beginning of August. Ostensibly, it calls for a $55 billion cut in the deficit for fiscal 1986 and total savings of $276 billion over three years. According to most estimates, however, the actual savings offered by the Congressional plan over this next fiscal year would be not much more than half the proclaimed figure; even on quite favorable economic assumptions, the deficit will remain little short of $200 billion. Furthermore, the present resolution is only indicative and could lose its force in the appropriation process. Thus, the anticipated deficit reduction may not materialize. While the large federal deficit may have contributed to a strong dollar in the past, insofar as it has increased real interest rates, continued failure to come to grips with the deficit is likely to erode confidence in the dollar. Huge deficits either divert resources from the private sector, undermining long-run growth prospects for the U.S. economy, or entail continuing dependence on inflows of foreign capital, for which a price will someday be paid.

The dollar's decline is likely to have little economic impact, since its sharp peak last winter was short-lived. Indeed, if exchange rates were to hold unchanged at current levels, the dollar's trade-weighted index for 1985 would average 5% higher than in 1984, and would fall just 3% in 1986 (see Table 2). Thus, the dollar still would be higher in 1986 than in 1984. At best the dollar's recent depreciation will only moderate the further deterioration in the trade deficit implied by its earlier appreciation. At any rate, the gaping U.S. trade deficit with Japan is likely to continue widening, because the yen has appreciated only half as much as the European currencies and also because the relaxation of the voluntary restraint program is boosting Japanese automobile exports.

Table 1

Three-month Eurocurrency interest rates

percent per annum

	August 12, 1985	*Change since June 1984*
Dollar	7.9	—4.2
Japanese yen	6.3	0.1
Canadian dollar	8.9	—3.2
German mark	4.6	—1.3
French franc	12.3	0.0
British pound	11.3	1.9
Italian lira	13.2	—2.1

Table 2

Selected exchange rates

units per dollar, except as noted

	Average 1984	*Aug 12, 1985*	*Hypothetical % changes**	
			1985	*1986*
Japanese yen	238	237	—3	4
Canadian dollar	1.30	1.36	—5	0
German mark	2.84	2.80	—5	6
French franc	8.74	8.55	—4	6
British pound	1.34**	1.38**	—5	7
Italian lira	1757	1878	—9	3
Nominal effective dollar, 1980-82=100	122	124	5	—3

*From previous year's average, assuming rates hold unchanged at levels of early August 1985 for the remainder of 1985 and 1986. Minus sign indicates depreciation.

**Dollars per pound.

For a dollar decline to have a material impact on the overall U.S. trade deficit it has to be greater and sustained longer than has yet been the case. A further 10% sustained depreciation would benefit the trade deficit by about $20 billion within two years.

Similarly, the inflationary impact of the dollar's decline to date is unlikely to be severe. The same should hold true of a further moderate decline below present levels. In the current environment of wage restraint, continuing weakness in nonoil commodity prices, and soft oil markets, the inflationary effect of moderate dollar depreciation should be greatly dampened: that has certainly been the European experience with the decline in their currencies these past several years. But a downside overshoot of the dollar — as few would either welcome or expect — would be a different story, since it might easily precipitate the return of a wage-price spiral that would significantly raise the ongoing U.S. inflation rate for years to come.

In all, the modest decline in the dollar, while a welcome development for the U.S. industrial sector, leaves unresolved the issue of how to scale down the trade deficit. Although the Japanese trade measures that were recently announced have interesting features for long-term U.S.-Japanese bilateral trade relations, they are not designed to achieve reduction in the trade imbalance during the next few years. Neither the Japanese nor German governments show any sign of responding positively to the gathering pressures for policy changes voiced by the United States, Britain, the OECD, or their own prestigious research institutes. With the industrial nations unwilling to address the huge U.S. trade imbalance in a constructive manner, the risk continues to grow that political pressures will force a destructive solution by stepped-up protectionism. To ward off that dangerous course, there should be no letup in pressures on the United States to curb its budget deficit, on Japan to open its markets, and on low-inflation, high-trade-surplus countries to accelerate their economic growth.

European monetary issues

July's 7.8% devaluation of the Italian lira's central rate against other currencies participating fully in the European Monetary System (EMS) took the financial markets pretty much by surprise. Yet, the greater surprise should have been that more than two years could have elapsed with no EMS realignments at all. Although disparities continue in the economic performance of the member countries, they have been less extreme these past two years than during 1981-82, when France pursued an expansionary policy diametrically opposite to that of Germany. With all EMS members subsequently marching under the banner of fiscal rectitude, financial strains have been contained without conspicuous difficulty. Significantly, until last month's lira move, there was no recurrence of chronic strength of the German mark within the EMS band, as had typically preceded earlier realignments of the system.

As for the future, the challenge of achieving more complete convergence in the European Community (EC) is unlikely to diminish. The dollar's rising trend during most of this decade has mitigated disparities of trade performance and fiscal rigor, as well as incipient EMS currency tensions. Should the dollar trend lower in coming years, EMS strains may prove harder to contain without periodic realignments.

Still, the system's usefulness is not

Table 3

Real effective exchange rate variability

standard deviations of month-to-month percent changes
figures in parentheses refer to variability of intra-EMS relationships alone

	1973 Mar-1979 Mar	*1979 Apr-1983 Mar*	*1983 Apr-1985 Jul*
Belgian franc	1.0 (1.0)	0.9 (0.8)	0.5 (0.5)
Danish krone	1.8 (1.8)	1.4 (1.2)	1.1 (1.0)
French franc	1.5 (1.5)	1.3 (1.2)	0.8 (0.6)
German mark	1.4 (1.2)	0.9 (0.6)	0.6 (0.3)
Irish pound	1.3 (2.3)	1.5 (0.9)	1.1 (0.5)
Italian lira	1.8 (2.1)	0.9 (0.9)	0.7 (0.8)
Dutch guilder	0.9 (0.9)	0.9 (0.8)	0.6 (0.4)
British pound	1.9	2.3	2.0
Japanese yen	2.2	2.9	1.2
Dollar	1.3	2.0	1.7

Table 4

Consumer prices

	Percent change per annum Dec-Dec		*Cumulative percent change April 1983-July 1985*
	1980	*1985*	
Belgium	7.5	5.0	14.2
Denmark	10.9	4.5	13.5
France	13.9	6.0	16.9
Germany	5.5	2.3	5.7
Ireland	18.3	5.0	18.0
Italy	21.3	8.7	23.9
Netherlands	6.7	2.5	6.3
United Kingdom	15.1	5.8	13.2
Japan	7.0	1.9	5.7
United States	12.4	3.5	9.0

determined by its success in stifling currency adjustments but by how well it fosters Europe's overall economic performance and unity. The scope of the EMS will be significantly expanded if Britain chooses to place sterling under the discipline of the EMS exchange rate mechanism. Six years ago, at the start, Britain likely was right to stay out. Today, with U.K. monetary targeting in disrepute and near-abeyance, the economic case for joining up is more attractive. The political case is another question, since British enthusiasm for things European is hardly unbounded.

Resolution of political obstacles is as crucial for the EMS as for Community conflicts over agricultural and budget policies or the creation of a true common market. In the monetary field, most EMS members still maintain controls, of varying severity, on intra-Community capital flows. Gradually, and perhaps now at a quickening pace, technology and market forces are wearing down the effectiveness of controls. But political reluctance to subordinate monetary policies to supranational authority remains strong. Some observers see the fast-widening private use of the European currency unit (ECU) as both the precursor of a European currency and the promising way forward for the EMS. However, no matter how interesting the rise of the private ECU may be as a market phenomenon, evolution of the EMS toward genuine European monetary integration requires explicit political decisions.

Incomplete convergence

The underlying economic divergences among EMS members have narrowed since the spring of 1983, providing much greater stability of their mutual trade competitiveness than during the first four years of the system's existence. Table 3 shows that the gains in month-to-month real exchange rate stability are particularly evident when judged on intra-EMS relationships alone. Thus the EMS has provided its full members partial satisfaction of their quest for a zone of monetary stability.

Table 4 shows that there has been major progress in bringing down consumer price inflation in all EMS countries, especially in France, Ireland, and Italy, where inflation was entrenched in double-digit territory. Adherence to the EMS has played a useful role. Still, French and Italian inflation rates remain well above the 2%-4% range that Germany and the Netherlands have maintained since economic recovery got under way early in 1983. By this July the level of consumer prices had risen approximately 24% in Italy and 17% in France since April 1983, just after the last major realignment, versus under 6% in Germany.

Competitive imbalances have therefore emerged. Judging by manufactures wholesale prices, the real exchange rates of Germany and the Netherlands, vis-à-vis other EMS members, were nearly 4% more competitive by mid-1985 than in April 1983; Belgium's improvement was a more modest 1%. The gains of these three members were matched by losses for the rest: 3% for Denmark, 4% for Ireland, and 5% or more for both France and Italy. These intra-European losses were not particularly troublesome so long as overall competitive gains were provided by a strengthening dollar (see Table 5). However, the dollar's rise climaxed a full five months ago. It has since come down sharply against the EMS bloc, by an average of 18% as of early August.

Relative price competitiveness provides one recognized approach to gauging the viability of EMS currency relationships. However, de-

Table 5

Real effective exchange rates

1980-82=100

	Apr 1983	Feb 1985	Aug 12, 1985
Belgium	93.1	91.3	89.8
Denmark	100.1	96.3	99.6
France	96.6	97.0	102.5
Germany	101.1	94.5	95.8
Ireland	101.8	101.7	101.2
Italy	100.3	101.7	101.5
Netherlands	102.0	97.4	100.9
United Kingdom	90.8	83.8	94.4
Japan	96.2	93.5	93.3
United States	110.6	129.7	118.7

Table 6

Sources of real GNP growth: 1985

based on OECD estimates

		Change as percent of 1984 GNP	
	Percent change	Domestic demand	External demand
Belgium	1.7	1.0	0.7
Denmark	2.7	1.7	1.0
France	1.3	0.8	0.5
Germany	2.3	1.0	1.3
Ireland	2.0	0.3	1.7
Italy	2.3	2.3	0.0
Netherlands	2.0	1.0	1.0
United Kingdom	3.0	2.3	0.7
Japan	4.5	3.2	1.3
United States	2.8	4.1	—1.3

pending on cost and demand conditions, price competitiveness may entail business profits that are high, low, or even negative. The indications are that profitability is relatively strong in Germany and also has strengthened considerably in France. The French improvement has been purchased at heavy social cost in terms of economic growth and long-deferred labor shedding in the industrial sector. The improvement is the more impressive for being achieved in the face of an adverse real exchange rate trend and of the government's austerity program, which has attenuated domestic demand (see Table 6).

By accident or design, most other EMS members have achieved less rigorous restraint of domestic demand, with the result that their external accounts are no longer improving or, in the cases of Belgium, Denmark, and Italy, have worsened this year (see Table 7). The positions of the weaker members would look still more vulnerable were it not for their participation in the $19 billion improvement that occurred between 1983 and the first half of 1985 in the collective EC trade surplus vis-à-vis the United States.

Trade balance divergences among the EMS members are likely to widen further, except in three eventualities: that Germany takes material steps to boost its domestic demand, so as to alleviate external payments pressure on its partners; that EMS members suffering impaired price competitiveness, or marking up more rapid domestic growth than Germany, cut back their own domestic growth — as Denmark is now attempting; or that they seek realignment of their currencies within the EMS — as Italy did last month.

Unquestionably, the partners favor German expansion as posing minimal inflationary threat. This course, however, meets determined resistance from orthodox opinion in Germany itself. In the vulnerable countries, redoubled domestic austerity is generally unappealing for employment and electoral reasons, although policy rigor may hold sway politically for some period to come. Accordingly, EMS realignment looks to be the only way out of ultimately untenable positions. France presents the major question mark: an early devaluation of the franc would likely provide scant benefit to French trade or employment ahead of the Assembly elections next March; its inflationary consequences would appear more quickly; and the act of devaluation would undermine the government's prestige. Over the next seven months, however, surprise developments could well precipitate an earlier denouement.

Britain and the EMS

U.K. financial and industrial circles are displaying renewed interest in bringing sterling into the EMS exchange rate mechanism. When the EMS was launched in March 1979, Britain embraced the new system in every aspect save its most important feature, namely the observance of exchange rate margins for sterling. At the time, monetarism held considerable intellectual sway. The Thatcher Administration, which was shortly to take office, set great store by the presumed benefits for inflation expectations that would accrue from credible targets for its preferred monetary aggregate, sterling M3. targeting of the exchange rate, as full participation in the EMS would have demanded, was seen as neither necessary nor helpful in the battle for price stability.

As is well known, sterling M3 has proved hard to control in practice. Moreover, as the second oil shock unfolded, the initial "benign neglect" toward the exchange rate

Table 7

Trade balances

estimated on a balance of payments basis
billions of dollars at seasonally
adjusted annual rates

		Year to latest date*	
	1984	1985	Change from same period of 1984
Belgium	—2.8	—2.1	—0.4
Denmark	—0.2	—0.6	—0.3
France	—4.0	—4.3	0.9
Germany	24.1	26.1	5.6
Ireland	0.0	0.5	0.1
Italy	—6.0	—10.3	—7.6
Netherlands	5.4	3.9	—1.2
United Kingdom	—5.7	—3.8	—0.2
Japan	44.3	49.2	8.1
United States	—108.3	—130.0	—23.5

*Jan-Jun, except Belgium: Jan-Apr; Italy: Jan-May.

Table 8

British monetary targetry

annual-rate percent growth in sterling M3;
target periods are generally for the 14
months ending in April of year indicated

	Target range	Actual
1978	9-13	16.0
1979	8-12	10.9
1980	7-11	10.3
1981	7-11	22.2
1982	6-10	13.5
1983	8-12	10.8
1984	7-11	9.9
1985	6-10	12.2
1985 July	5-9*	12.0

*Since May 1985, applies to ongoing 12-month rate of growth, superseding the former practice of measuring growth from February base periods.

proved economically costly. At least since 1981, the history of U.K. monetary policy has been one of dissension over both the merits of monetary aggregate targets and the appropriate techniques of monetary control; of manipulation of actual monetary growth, symbolized by the commercial bill mountain piled up by the Bank of England; and, almost by default, of sterling's gradual return to primacy in the U.K. monetary order

In all this there are parallels between U.K. and U.S. experience. However, differences remain. The Federal Reserve interprets the monetary aggregates in terms of their conjectured, yet evidently unstable velocity relationship to nominal GNP, while paying close attention also to trends in the real economy, inflation, and the dollar exchange rate. Still, although the Fed may have strong preferences about the dollar's value, the United States cannot, as the leading world economy, pursue an exchange rate policy without regard for global price stability. No other country can assume the latter responsibility. When the Fed abdicates its global role, as it did in the 1970s, the consequences for the world at large are grievous indeed.

Britain has the option of substantially identifying its monetary policy with exchange rate policy. To be sure, one cannot be completely confident that control of prices — interest or exchange rates — affords better economic results than control of monetary aggregate quantities. Accordingly, much U.K. opinion remains sympathetic to the targeting of nominal GDP. However, it increasingly recognizes that velocity uncertainties in a period of rapid financial innovation and deregulation render every suggested monetary aggregate unreliable; the current official targets, for sterling M3 and MO (predominantly notes and coin), elicit particular skepticism (see Table 8).

At the same time, the extraordinary gyrations of sterling stand in marked contrast with the relative effective stability of currencies within the EMS exchange rate mechanism (see Chart 4). Last year, Britain conducted 45% of its total manufactures trade with other members of the EC. U.K. industrialists have been understandably shaken by a sterling-DM cross rate that, on a weekly average basis, has varied between 3.54 and 4.03 DM per pound in the past year alone. That is a range of 14%, nearly half as much again as the actual range of the lira-DM cross rate (including its July realignment) and three times the maximum fluctuation permitted other EMS currencies in their cross rates with the German mark.

Sterling's full participation in the EMS offers the best hope for greater U.K. exchange rate stability. Provided the exchange rate commitment were seriously pursued and defended, which might well involve greater domestic interest rate volatility than at present, there could be an added bonus from U.K. participation: the binding of sterling to the low-inflation German mark could materially lower U.K. inflation expectations and interest rates — as monetary control was intended to accomplish The exchange rate may well convey a more forceful and convincing message than ambivalent targeting of opaque monetary aggregates.

Discipline of U.K. inflation expectations has become especially vital in view of this year's rise in actual inflation to about 7%, the signs of escalating private-sector wage settlements, and public-sector catch-up pressures — all suggestive of undue ease in interest and exchange rates during 1983-84. From the January crisis until recent weeks, the government has relied on very high interest

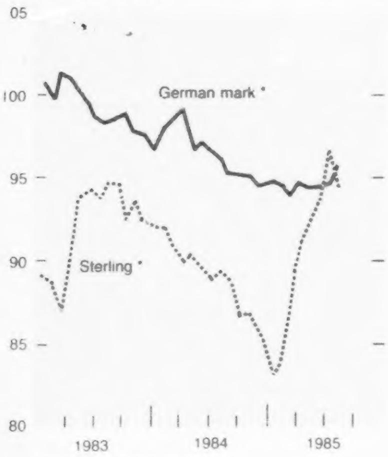


Chart 4

Sterling's instability

real effective exchange rates, 1980-82 = 100

* latest plotting August 12

rates and a much appreciated pound to restore price and wage discipline. The instruments are effective, if applied consistently over an extended period, but their cost can prove heavy in terms of economic growth, exports, and employment. Full participation in the EMS could furnish the same degree of domestic discipline as a high floating exchange rate, but at a quasi-fixed exchange rate that in real terms is less punishing of industry.

A number of objections still are cited to Britain's full entry into the EMS. One concerns the discordant behavior of the pound and the mark at times of oil market uncertainty. In the wake of the second oil shock, when both market valuations of petroleum assets and Britain's North Sea oil production were soaring, the petrocurrency tension would almost certainly have made it impracticable to hold sterling at fixed exchange rates within the EMS. The same difficulty could present itself again, at least in muted form, if the oil price were to decline more drastically than most current forecasts contemplate. However, with North Sea output now on a plateau and unlikely to fall steeply for some time to come, there is not today the coincidence of oil-sector price and volume risks pointing on the downside for sterling as occurred six years ago on the upside. Thus, sterling now appears more manageable in the EMS context, with the system's ample credit facilities also offering an attractive insurance for Britain. Of course, economic shocks come in many forms and may cause trouble for any fixed exchange rate system. Still, EMS parities are not immutable; the system does provide for currency realignments when basic circumstances change.

Another objection, partly related, concerns incorporation of a second reserve currency within the EMS alongside the German mark. Some observers foresee possible instability between rival currencies as the European financial arena becomes more closely integrated. Instability obviously cannot be ruled out, especially when policies are at odds. However, the U.S.-Canadian example shows that financial integration is not inevitably disruptive. In the EMS context, the twin reserve-currency worry is largely beside the point: only in the depth and international integration of U.K. domestic financial markets does sterling outclass the mark. Although London is undoubtedly Europe's premier financial center, the pound sterling has been long eclipsed by the German mark as a reserve currency; neither is it a major Eurocurrency. Moreover, the German economy is 40% larger than Britain's.

These considerations may lie behind the final, rarely articulated objection to Britain's full participation in the EMS, namely the dislike of perceived subjection to German hegemony or some supranational bureaucracy. Such concern is evident in the British Labour party and is hardly absent among the Conservatives. It is not allayed by appeal to the partly conjectural economic benefits that the EMS may provide Britain itself, substantial as they may very well be.

On a broader plane, Britain's full participation in the EMS also appears prerequisite to genuine progress toward European monetary union; to settle for a two-tier Europe would undermine Europe's potential role in the world at large. Sterling's accession would strengthen the constituency for free movement of capital within the Community. Certainly, it would expand significantly the sphere of intended European currency stability, whether or not such stability proved durable without periodic realignments. Moreover, it would be a political boost for a

Table 9

The ECU's progress

billions of dollars
by currency of denomination

	1983	1984	Jan-Jun 1985*
New international bond issues			
ECU	2.0	3.0	6.4
Dollar	42.9	69.1	108.0
German mark	6.5	6.8	9.0
Swiss franc	14.3	12.6	12.0
Japanese yen	4.0	5.8	9.7
British pound	2.8	5.3	5.2

	End-1983	End-1984	End-March 1985
External foreign-currency assets of BIS-reporting banks in industrial countries			
ECU	6.9	18.0	23.6
Dollar	756.2	778.9	787.0
German mark	122.2	115.9	117.8
Swiss franc	58.4	51.9	56.6
Japanese yen	17.2	22.1	24.7
British pound	12.4	14.5	20.8

*Annual rate.

European Community whose drive for unity has been stalled so far in the 1980s.

The ECU: future of the EMS?

The high degree of EMS exchange rate stability these past two years and the growing talk of sterling's accession encourage thoughts of European monetary union. The surprisingly swift emergence of a sizable private ECU market is further taken in some quarters to indicate market readiness for progress.

The ECU, virtually insignificant four years ago, is now the unit of account for close to 5% of all new international bond issues (see Table 9). Whereas the ECU was formerly of commercial interest mainly to French and Italian borrowers, and also enjoyed political favor in Community borrowing, ECU paper has come to figure prominently this year in the financial strategies of a wide range of international borrowers, often in conjunction with sophisticated swap arrangements. The ECU is being actively promoted by a number of private financial institutions on its investment merits. The ECU's composite nature offers investors higher yields than are provided by German mark instruments at what is seen as limited exchange risk; borrowers in high-inflation, high-interest-rate countries find that ECU financing provides attractive interest cost savings; and, on either side of the balance sheet, the ECU can provide a useful measure of currency diversification.

The sparkling success of the private ECU leaves some European monetary officials a little embarrassed at the glacial progress of their own official unit. Only this past June, after a full six-year experience with the EMS, did they at last agree to a cautious relaxation of prevailing restrictions on use of the ECU for transactions among their own central banks or, for some purposes, with those of nonmembers. For the first time, but still within limits, member countries may mobilize their official ECU holdings to obtain dollars or Community currencies for intervention inside EMS margins, rather than only when those margins are actually reached; this step had to overcome long-standing objections that intramarginal intervention potentially could be abused to frustrate market signals of the need for policy changes. Other reforms introduced this July include a modest liberalization of the 50% rule on members' acceptance obligations toward ECUs offered in settlement of intervention balances, and remuneration of net ECU claim positions at money-market related interest rates, in place of administered discount rates — a step which should enhance the appeal of official ECUs.

These steps were difficult and delayed because there still are wide differences of opinion on what is entailed in substantive progress toward European monetary union and on how, if at all, the ECU — private or official — can play a constructive role to that end. It is evident that some of the interested parties are content with symbolic gestures or with technical improvements serving no clear purpose. Some would like to promote the ECU as a reserve asset in competition with the dollar and the mark. Supposedly that would allow Europe to stand more nearly shoulder-to-shoulder with the United States, presumably permitting Europe to share in what it has long deplored as the unique U.S. privilege of seignorage. Alternatively, it is claimed — naively — that the development of attractive private and official ECU assets would deter or drain off speculative capital flows into "hard" EMS currencies at times of dollar weakness or prospective realignments of the

EMS itself.

Equally unrealistic is the notion that the private ECU can prosper, spread, and spontaneously achieve the stature of a common European currency, perhaps circulating in parallel with national currencies, without tough political decisions on the part of the Community members. The Dutch and German authorities correctly emphasize that the political issues cannot be brushed aside. For example, the private ECU lacks standard features of a true currency, such as formal convertibility, a central bank of issue, and lender of last resort. These attributes cannot be put in place short of a concerted decision by European governments to establish the equivalent of an independent European central bank, endowed with powers of market intervention and liquidity issuance. Its functions would supplant several of those currently exercised and keenly defended by national central banks. Moreover, in a common currency environment or one in which fluctuations of national currencies were progressively suppressed, there would be a need for centralized authority over national budgetary practices. These are formidable requirements, to which no national government can be expected to accede for years to come.

In the meantime — despite the acrimony bred of successive EC summit wrangles on agriculture, budget, and internal trade policies — there is scope for constructive and perhaps enhanced cooperation among European central banks with the discreet backing of their governments. Taking on ambitious new commitments any time soon in the monetary field makes little sense without more complete fulfillment of existing commitments. Contrary to the Treaty of Rome, two founder members of the EC — France and Italy — still maintain exchange controls on intra-Community transactions, if recently somewhat liberalized; Belgium has a two-tier currency; and, with the full exception only of Britain, the newer members of the Community all maintain controls ranging from fairly permissive to rigidly restrictive.

Over time, the geographic scope of the EMS can feasibly grow to encompass sterling and, at some point in Spain's transition process as a new member of the EC, the peseta. The chances for Greek and Portuguese participation appear slim.

More harmonious macroeconomic policies also are important to the future stability and usefulness of the EMS. Much has already been achieved toward some convergence of inflation and the correction of outsize budget deficits, except in Italy. So far the emphasis has had to rest on policy restraint on the part of wayward members, lending some substance to the charge of deflationary basis in the system itself. The EMS, like its predecessor "snake" and the Bretton Woods system, disciplines the profligate but fails to spur economic expansion in its low-inflation members. Right now, the pressing need is for a more expansive economic approach in Germany, so that Europe can tackle its unemployment and other internal problems more positively and also play a helpful role in global economic adjustment.

In sum, although the private ECU is meeting legitimate market needs in a useful way, its systemic significance should not be exaggerated. Today's political realities compel skepticism about the practical willingness of European governments to cede national sovereignty over basic economic policies to supranational authority. Until that willingness becomes more evident, the term "ECU babble" will remain all too descriptive of many pronouncements concerning Europe's readiness for monetary union.

Statistical appendix

For key to data in tables see pages 18 and 19.

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Information herein is from sources considered to be reliable but is furnished without responsibility on the part of Morgan Guaranty Trust Company.

Nominal effective exchange rates

Index numbers, 1980-82 average=100.

	United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Belgium	Neth-erlands	Spain	Swit-zerland	Den-mark	Norway	Swe-den
1980	90.7	100.4	95.5	96.0	106.5	100.0	108.4	99.8	99.4	105.9	100.2	106.5	95.4	105.1	98.2	103.9
1981	99.5	100.2	105.8	104.0	100.4	97.2	98.8	102.1	98.9	101.8	97.1	99.4	98.3	99.2	100.1	103.3
1982	109.8	99.4	98.6	100.1	93.1	102.8	92.8	98.1	101.7	92.3	102.7	94.1	106.3	95.7	101.7	92.8
1983	114.2	100.8	107.8	92.0	87.3	107.6	90.3	91.6	103.6	90.0	105.0	78.4	111.5	96.4	99.4	82.2
1984	122.4	97.3	113.0	94.2	84.4	107.4	86.7	88.1	103.6	88.9	104.0	77.4	110.5	93.9	97.8	84.3
1984																
August	124.0	97.0	111.4	91.9	84.3	107.3	86.6	87.9	103.8	89.3	103.8	76.6	108.8	93.6	97.1	84.6
September	127.3	96.7	112.0	92.1	83.6	106.2	85.9	87.1	103.2	88.9	103.1	76.9	109.3	93.2	96.9	85.6
October	128.5	96.6	112.0	93 6	83.7	106.3	85.7	85.3	103.2	88.7	103.2	77.0	109.8	93.4	97.1	85.6
November	126.8	96.5	112.5	95.0	84.0	106.7	85.6	85.2	103.4	89.3	103.5	77.4	110.2	94.2	95.5	85.1
December	129.5	96.7	112.0	94.8	83.6	106.1	86.0	83.7	103.2	89.3	103.0	77.8	109.5	94.5	95.5	85.0
1985																
January	132.0	96.9	110.5	93.8	83.7	106.2	86.3	81.0	103.4	89.9	103.0	78.1	107.8	95.0	95.7	85.0
February	136.4	95.3	110.0	86.8	83.5	105.8	85.4	81.4	103.3	89.3	102.5	77.6	105.9	94.4	95.8	85.5
March	136.9	93.2	111.3	81.5	83.7	105.9	83.7	84.0	103.0	89.0	102.5	77.2	105.8	94.3	95.7	84.6
April	131.7	93.6	111.5	74.2	84.5	106.7	83.0	88.1	103.8	89.2	102.9	77.5	108.0	94.5	96.0	83.6
May	132.0	92.9	111.5	76.3	84.4	106.5	82.9	89.2	103.5	89.0	102.9	76.5	107 4	93.7	96.0	83.8
June	130.5	93.2	112.2	74.2	84.4	106.5	83.0	90.4	103.6	88.9	103.0	76.3	107.6	94.3	95.8	83.8
July	125.8	93.4	113.1	75.5	85.3	107.2	81.2	93.7	103.9	89.0	103.5	75.5	109.9	94.5	95.7	83.6
June 28	130.0	93.4	112.0	74.2	84.5	106.5	83.0	91.2	103.2	88.8	103.0	75.4	108.1	94.0	95.6	83.9
July 5	129.2	93.7	112.0	74.0	84.6	106.5	83.0	91.9	103.3	88.9	103.0	75.4	107.9	94.0	95.6	83.9
12	126.6	93.5	112.5	74.7	85.1	106.9	82.3	93.8	103.4	88.9	103.3	75.5	108.7	94.1	95.6	83.7
19	124.4	93.4	114.6	76.4	85.4	107.2	81.6	93.8	103.9	89.2	103.6	75.6	110.2	94.5	95.7	84.4
26	124.8	93.4	113.5	76.2	85.8	107.6	79.4	94.3	104.1	89.2	103.8	75.3	111.5	94.8	95.6	84.4
August 2	123.9	93.1	113.8	76.7	86.2	108.3	78.9	93.1	104.4	89.4	104.5	75.5	112.5	95.4	94.0	84.4
9	124.9	92.9	113.9	76.4	86.1	108.4	80.2	90.4	104.6	89.8	104.7	75.3	111.3	95.4	95.7	83.3

Real effective exchange rates — industrial countries

Index numbers, 1980-82 average=100.

	United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Belgium	Neth-erlands	Spain	Swit-zerland	Den-mark	Norway	Swe-den
1980	89.4	99.6	103.0	93.0	102.1	103.5	103.5	99.9	100.2	107.5	99.9	100.9	98.7	103.5	96.6	101.2
1981	100.6	100.0	104.6	102.7	100.1	97.3	98.7	102.3	99.1	100.3	97.6	99.4	98.7	99.2	100.9	102.1
1982	109.9	100.4	92.3	104.3	97.8	99.2	97.8	97.9	100.7	92.3	102.5	99.8	102.6	97.3	102.5	96.7
1983	112.7	103.1	96.6	100.0	96.1	99.3	100.1	92.0	101.7	92.0	101.8	90.6	104.4	98.8	101.3	91.5
1984	118.2	101.2	97.6	105.1	96.8	96.5	101.1	89.3	102.7	90.9	100.1	95.0	99.4	96.5	100.1	96.9
1984																
August	119.5	101.2	96.0	103.3	97.2	96.1	101.5	89.4	103.0	91.3	99.9	94.3	97.3	95.8	98.5	97.8
September	121.5	101.4	96.8	103.7	96.3	95.2	101.0	88.3	102.0	90.8	99.2	95.6	97.9	97.2	99.5	98.9
October	123.6	100.4	96.0	105.0	96.5	95.2	100.8	86.8	101.8	90.6	98.8	96.0	98.8	96.6	100.1	99.1
November	122.0	100.4	96.2	106.5	97.0	95.2	101.2	86.8	102.5	91.8	98.6	96.9	98.7	98.0	98.3	98.3
December	123.9	101.1	95.7	106.6	98.0	94.5	101.4	85.4	102.3	91.4	98.0	97.5	98.0	98.1	98.0	98.7
1985																
January	125.9	101.6	94.2	105.4	97.0	94.9	102.6	83.2	102.3	91.6	98.0	98.6	96.4	97.8	97.4	99.4
February	129.7	99.9	93.5	97.9	97.0	94.5	101.7	83.8	102.0	91.3	97.4	98.5	95.0	96.3	98.0	100.2
March	129.8	98.0	94.0	92.5	97.8	94.1	99.9	86.5	101.6	90.4	97.7	98.1	95.6	97.5	98.3	99.6
April	125.1	98.3	93.6	84.4	98.9	94.7	99.3	91.3	102.4	90.1	98.2	98.9	96.4	98.3	98.5	98.1
May	126.1	97.2	93.0	87.0	99.2	94.3	99.0	92.2	101.9	89.8	98.4	97.6	96.2	97.5	99.2	98.2
June	124.6	97.5	93.0	85.1	99.7	94.3	99.5	93.2	101.9	89.5	98.8	96.8	96.6	97.7	99.4	98.7
July	120.3	97.7	93.3	86.9	101.1	94.7	97.6	96.7	102.1	89.4	99.5	95.9	98.6	98.4	99.2	98.5

Real effective exchange rates — developing countries

Index numbers, 1980-82 = 100

	Argentina	Brazil	Chile	Colombia	Mexico	Peru	Venezuela	Hong Kong	Indonesia	Korea	Malaysia	Philippines	Singapore	Taiwan	Israel	Turkey
1980	116.4	84.8	95.3	94.7	104.0	93.1	91.3	98.4	89.6	95.9	96.2	93.3	98.6	100.9	92.9	100.2
1981	107.7	103.2	108.1	100.4	114.1	103.2	99.6	99.4	99.6	101.2	99.3	101.2	102.7	102.6	99.3	104.4
1982	75.9	112.0	96.5	104.9	81.9	103.8	109.1	102.2	110.8	102.9	104.5	105.5	98.7	96.5	107.7	95.4
1983	71.2	85.6	88.8	104.0	78.0	97.7	116.1	96.6	95.7	97.3	112.7	95.1	97.1	93.1	119.5	92.8
1984	79.9	85.5	89.8	99.3	91.5	105.8	85.6	100.3	96.7	95.9	119.1	107.4	95.8	95.5	118.3	90.6
1984																
July	85.6	86.4	91.3	99.5	90.9	108.7	79.6	100.5	98.8	96.2	120.7	104.7	95.7	96.7	117.6	90.7
August	85.7	86.3	92.4	99.3	91.3	109.1	83.6	100.8	97.4	96.4	121.3	106.4	96.2	97.6	119.1	91.8
September	88.7	88.6	93.0	100.1	94.2	109.7	85.8	103.6	97.4	97.7	123.3	113.8	96.9	98.9	122.0	94.0
October	82.0	89.9	89.6	98.4	96.3	107.9	87.5	105.3	97.8	97.3	121.1	112.4	96.1	98.2	122.0	94.5
November	73.7	88.4	88.1	97.4	95.8	104.8	87.8	104.7	96.4	96.3	119.7	109.0	95.0	96.6	122.0	95.4
December	76.1	91.1	87.0	98.0	96.1	101.6	89.2	107.1	98.7	96.8	121.3	111.9	95.5	97.4	114.2	95.5
1985																
January	75.0	94.1	88.2	98.9	97.8	98.3	91.4	108.8	100.0	97.0	120.5	118.4	95.7	98.3	109.5	98.0
February	77.1	93.0	89.4	99.7	100.2	96.9	93.5	111.5	101.2	97.9	120.1	123.4	95.7	99.4	119.5	102.3
March	76.5	96.7	82.9	96.6	100.9	92.2	94.5	112.1	99.9	96.2	119.3	123.4	95.7	98.6	116.1	101.5
April	76.2	89.0	81.6	92.1	99.0	91.1	92.9	108.7	98.6	92.2	118.7	118.7	94.4	96.2	112.7	96.3
May	76.7	84.1	82.9	90.2	97.9	91.3	95.1	108.8	98.2	91.1	119.8	118.6	93.1	95.2	104.6	94.1
June	76.1	74.6	85.6	86.8	97.0	91.3	98.8	108.2	97.8	89.9	119.1	118.2	91.4	95.4	105.2	89.6

International banking market size

at end of period, billions of dollars

	1981	*1982*	*1983r*	*1984*				*1985*
				Marr	*Junr*	*Sepr*	*Decr*	*Mar*
Gross claims								
Eurocurrencies, on residents and nonresidents	**1 929**	**2 146**	**2 253**	**2 339**	**2 330**	**2 322**	**2 352**	**2 461**
On nonbanks	557	634	665	685	679	676	684	708
On banks	1 372	1 512	1 588	1 654	1 651	1 646	1 668	1 753
In dollars	1 504	1 694	1 797	1 841	1 850	1 857	1 887	1 974
In other currencies	425	452	456	498	480	465	465	514
Domestic currencies, on nonresidents	**365**	**398**	**398**	**400**	**406**	**393**	**397**	**402**
On nonbanks	128	132	136	136	140	138	137	140
On banks	237	266	262	264	266	255	260	262
In dollars	188	211	217	206	218	208	210	201
In other currencies	177	187	181	194	188	185	187	201
Total	**2 294**	**2 544**	**2 651**	**2 739**	**2 736**	**2 715**	**2 749**	**2 863**
On nonbanks	685	766	801	821	819	814	821	848
On banks	1 609	1 778	850	1 918	1 917	1 901	1 928	2 015
In dollars	1 692	1 905	2 014	2 047	2 068	2 065	2 097	2 148
In other currencies	602	639	637	692	668	650	652	715
Gross liabilities								
Eurocurrencies, to residents and nonresidents	**1 954**	**2 168**	**2 278**	**2 362**	**2 360**	**2 349**	**2 383**	**2 481**
To nonbanks	372	432	479	500	503	492	500	508
To official monetary institutions	112	91	88	85	88	94	96	96
To other banks	1 470	1 645	1 711	1 777	1 769	1 763	1 787	1 877
In dollars	1 539	1 741	1 846	1 882	1 905	1 912	1 949	2 001
In other currencies	415	427	432	480	455	437	434	480
Domestic currencies, to nonresidents	**263**	**250**	**258**	**262**	**277**	**274**	**277**	**289**
To nonbanks	74	70	71	71	71	72	77	78
To banks	189	180	187	191	206	202	200	211
In dollars	126	116	133	128	140	140	143	143
In other currencies	137	134	125	134	137	134	134	146
Total	**2 217**	**2 418**	**2 536**	**2 624**	**2 637**	**2 623**	**2 660**	**2 770**
To nonbanks	446	502	550	571	574	564	577	586
To banks and official institutions	1 771	1 916	1 986	2 053	2 063	2 059	2 083	2 184
In dollars	1 665	1 857	1 979	2 010	2 045	2 052	2 092	2 144
In other currencies	552	561	557	614	592	571	568	626
Net market size	**1 155**	**1 285**	**1 377**	**1 395**	**1 417**	**1 407**	**1 415**	**1 442**

International bond issues and bank credits

millions of dollars

	1982	*1983*	*1984*	*1985*			*Jan-Jun*	
				Apr	*May*	*Jun*	*1985*	*1984*
By country of borrower								
Industrial countries	**108 772**	**102 652**	**177 077**	**17 234**	**16 863**	**21 631**	**100 857**	**97 330**
Australia	7 213	5 737	5 816	838	698	1 480	5 181	2 158
Austria	2 068	1 290	2 254	112	241	350	1 395	1 427
Belgium	1 528	2 168	1 847	336	21	610	1 597	887
Canada	15 856	8 571	13 124	400	579	1 786	9 230	4 929
Denmark	2 725	3 941	4 825	440	222	503	1 956	2 651
Finland	1 446	1 271	1 713	60	56	181	840	1 011
France	14 813	8 626	11 298	914	208	2 174	6 954	5 456
Germany	1 101	3 197	2 165	50	287	329	1 056	1 163
Greece	808	1 291	1 551	200	450	187	1 306	550
Ireland	1 136	1 869	1 377	191	39	267	898	264
Italy	6 687	4 876	6 933	1 958	771	393	6 973	2 220
Japan	8 397	14 428	17 526	1 763	1 425	1 852	10 853	11 263
Netherlands	1 000	1 213	1 973	133	123	383	896	1 527
New Zealand	4 786	802	3 208	—	266	468	1 219	1 152
Norway	2 601	1 969	1 324	135	—	1 268	1 887	641
Portugal	1 684	1 030	1 796	68	138	103	1 120	1 045
South Africa	1 889	1 300	1 422	201	73	217	692	968
Spain	2 675	4 977	4 931	616	695	300	2 645	3 248
Sweden	3 181	7 144	11 256	512	2 644	491	5 955	8 958
United Kingdom	2 836	2 726	8 899	2 198	3 648	1 937	9 806	3 938
United States	21 109	20 276	65 054	5 829	4 160	5 953	27 134	40 047
*Other**	3 233	3 950	6 785	282	123	399	1 266	1 827
Developing countries	**49 023**	**38 256**	**39 725**	**1 687**	**3 402**	**1 505**	**12 024**	**23 082**
Latin American countries	**29 667**	**15 592**	**17 464**	**286**	**152**	**130**	**1 297**	**11 806**
Argentina	1 565	1 750	4 212	—	—	—	—	12
Brazil	5 972	4 475	6 649	—	—	—	—	6 500
Chile	1 194	1 405	784	—	—	—	—	784
Colombia	776	552	589	—	52	—	52	229
Mexico	9 968	5 138	3 918	—	—	—	—	3 883
Venezuela	7 241	237	—	—	—	—	—	—
*Other***	2 951	2 035	1 312	286	100	130	1 245	398
Asian countries	**11 723**	**12 978**	**15 893**	**811**	**2 196**	**1 232**	**7 632**	**7 351**
India	555	968	945	21	—	10	348	352
Indonesia	1 822	2 363	1 924	—	400	24	424	1 074
Korea	3 277	4 387	6 201	418	429	908	3 118	2 847
Malaysia	2 872	2 197	2 605	92	120	81	1 011	1 390
Philippines	888	878	925	—	925	—	925	—
Thailand	414	747	1 221	—	75	41	666	683
Other	1 895	1 438	2 072	280	248	168	1 141	1 005
Middle Eastern and African countries	**7 633**	**9 686**	6 368	**590**	**1 055**	**144**	**3 096**	**3 925**
Algeria	86	1 993	821	—	700	—	1 300	200
Nigeria	2 069	2 343	985	—	—	—	—	985
Turkey	277	1 106	741	500	28	—	579	600
Other	5 201	4 244	3 821	90	327	144	1 217	2 140
Eastern European countries	**1 479**	**1 294**	**3 244**	**480**	—	**457**	**2 035**	**1 652**
Hungary	340	741	1 386	25	—	357	651	885
Soviet Union	1 131	93	1 051	333	—	—	539	528
*Other****	8	460	807	122	—	100	845	239
International organizations****	**11 353**	**16 201**	**13 287**	**1 706**	**2 499**	**870**	**9 756**	**5 497**
By type of instrument and currency								
International bond issues	**78 042**	**76 329**	**107 411**	**12 347**	**16 636**	**13 975**	**80 107**	**50 624**
Eurobonds	51 645	48 501	79 458	9 816	14 504	11 885	67 038	35 052
U.S. dollar	43 959	38 428	63 593	7 125	11 325	9 197	51 837	27 888
German mark	2 588	3 817	4 604	435	1 133	811	3 677	2 239
British pound	748	1 947	3 997	433	525	185	2 446	1 757
Japanese yen	374	212	1 212	478	180	—	1 866	348
European composite units	1 980	2 019	3 032	738	658	666	3 198	1 535
Other	1 996	2 078	3 020	607	682	1 026	4 016	1 285
Foreign bonds	26 397	27 828	27 953	2 531	2 132	2 090	13 068	15 572
U.S. dollar	5 946	4 545	5 487	308	509	200	2 157	3 287
German mark	2 952	2 671	2 243	145	65	113	802	1 018
British pound	1 214	811	1 292	92	—	—	157	744
Swiss franc	11 432	14 299	12 626	662	1 031	1 178	5 985	7 915
Japanese yen	3 418	3 772	4 628	1 195	387	337	2 990	1 783
Other	1 435	1 730	1 677	129	140	262	977	825
International bank credits	**92 585**	**82 074**	**125 922**	**8 760**	**6 129**	**10 488**	**44 565**	**76 937**
Eurocurrency credits	85 015	74 222	112 605	8 548	5 676	10 069	41 693	71 478
Foreign credits	7 570	7 852	13 317	212	453	419	2 873	5 459
Total	**170 627**	**158 403**	**233 333**	**21 107**	**22 765**	**24 463**	**124 672**	**127 561**

*Includes multinational organizations. **Includes unallocated. ***Includes COMECON institutions. ****Includes regional development organizations.

Eurocurrency deposit rates

prime banks' bid rates, at or near end of month

	1982	1983	1984	1985						
	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
Eurodollar										
overnight	9.25	9.50	8.63	8.50	8.44	8.81	8.31	7.50	8.00	8.50
one month	9.13	9.69	8.38	8.31	8.88	8.69	8.38	7.56	7.63	7.94
three months	9.19	9.81	8.63	8.44	9.44	9.00	8.69	7.63	7.75	8.19
six months	9.50	10.06	9.13	8.69	10.00	9.44	9.00	7.88	7.88	8.44
twelve months	9.63	10.38	9.81	9.31	10.75	10.13	9.75	8.38	8.25	8.88
Euro-Canadian dollar										
one month	10.00	9.13	9.88	9.63	10.38	10.38	9.50	9.50	9.00	8.69
three months	10.00	9.50	10.81	9.63	11.19	10.56	9.81	9.50	9.38	8.94
six months	10.13	9.75	10.06	9.63	11.75	10.69	10.38	9.63	9.50	9.31
twelve months	10.25	10.00	10.44	9.88	12.06	12.00	10.75	9.94	9.63	9.50
Euro-French franc										
one month	23.00	12.13	10.69	10.31	10.63	10.63	10.31	10.13	10.50	14.00
three months	24.00	12.19	10.69	10.56	11.00	10.81	10.44	10.25	10.63	14.00
six months	22.00	12.31	11.00	11.00	11.44	11.25	10.75	10.38	10.75	13.75
twelve months	19.75	12.63	11.38	11.63	11.88	11.56	10.94	10.63	11.25	13.00
Euromark										
one month	5.88	5.25	5.50	5.75	5.81	5.69	5.75	5.50	5.44	4.69
three months	5.88	5.88	5.50	6.00	6.06	5.88	5.81	5.56	5.44	4.81
six months	5.94	6.13	5.56	6.06	6.38	6.06	5.88	5.56	5.50	4.94
twelve months	6.00	6.38	5.56	6.13	6.56	6.25	6.06	5.56	5.63	5.00
Euro-Dutch guilder										
one month	5.13	5.81	5.69	6.00	6.81	6.69	6.94	7.00	6.75	6.06
three months	5.19	6.00	5.75	6.13	7.06	6.81	6.94	6.88	6.69	6.00
six months	5.38	6.25	5.81	6.19	7.13	6.88	6.94	6.88	6.69	6.00
twelve months	5.63	6.38	5.94	6.31	7.31	6.94	7.00	6.81	6.69	6.00
Euro-Swiss franc										
one month	2.81	3.38	4.44	5.38	5.50	5.19	5.00	5.13	5.13	4.38
three months	3.25	3.75	4.56	5.38	5.75	5.50	5.19	5.13	5.25	4.50
six months	3.44	3.94	4.63	5.31	5.81	5.56	5.25	5.06	5.25	4.63
twelve months	3.44	3.94	4.69	5.19	5.63	5.44	5.25	5.00	5.25	4.69
Eurosterling										
one month	10.56	9.13	9.50	13.13	14.00	13.56	12.75	12.63	12.69	11.50
three months	10.44	9.31	9.88	12.50	13.88	13.13	12.69	12.44	12.44	11.19
six months	10.31	9.50	10.00	11.94	13.13	12.31	12.44	12.50	12.25	11.00
twelve months	10.31	9.81	10.19	11.88	12.69	11.94	12.13	12.01	11.94	10.88
Euroyen										
one month	6.75	6.25	6.19	6.19	6.50	6.25	6.13	6.31	6.19	6.25
three months	6.75	6.31	6.19	6.31	6.38	6.31	6.25	6.25	6.25	6.31
six months	7.10	6.38	6.13	6.25	6.31	6.31	6.31	6.25	6.25	6.25
twelve months	6.81	6.44	6.13	6.25	6.31	6.31	6.31	6.31	6.31	6.25
European currency unit										
one month	12.44	8.81	9.25	9.94	9.94	10.00	9.38	9.31	9.38	8.50
three months	12.31	9.19	9.38	9.94	10.06	10.13	9.56	9.31	9.38	8.50
six months	12.00	9.44	9.50	9.94	10.13	10.13	9.69	9.38	9.38	8.63
twelve months	11.19	9.63	9.63	9.94	10.13	10.25	9.88	9.50	9.38	8.75

International bond yields

average yield of several actively traded, high quality issues with a maturity of 7 to 12 years at or near end of month

	1982	1983	1984	1985						
	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
United States companies										
Eurodollar	11.16	11.59	11.25	11.05	11.65	11.73	11.24	10.58	10.49	10.65
Euromark	7.24	7.34	6.95	7.19	7.57	7.35	7.11	6.90	6.91	6.74
Swiss franc	5.70	5.83	5.73	5.85	5.95	5.86	5.74	5.69	5.69	5.69
European governments										
Eurodollar	12.53	12.65	12.04	11.72	12.40	12.29	11.97	11.20	11.17	11.31
Euromark	8.10	8.12	7.39	7.54	7.88	7.61	7.54	7.37	7.38	7.17
Swiss franc	5.40	5.63	5.24	5.17	5.35	5.34	5.21	5.20	5.22	5.16
European currency unit	n.a.	11.77	10.64	10.62	10.65	10.44	10.39	10.10	10.17	9.99

Central bank discount rates

at or near end of month

	1982	1983	1984	1985					Current	
	Dec	Dec	Dec	Mar	Apr	May	Jun	Jul	Aug 15 1985	effective since
United States	8.50	8.50	8.00	8.00	8.00	7.50	7.50	7.50	7.50	May 17, 85
Canada	10.05	9.96	10.09	10.65	10.02	9.76	9.58	9.31	9.30	Aug 15, 85
Austria	4.75	3.75	4.50	4.50	4.50	4.50	4.50	4.50	4.50	Jun 28, 84
Belgium	11.50	10.00	11.00	11.00	11.00	9.50	9.25	9.50	10.00	Aug 1, 85
Denmark	10.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	Oct 27, 83
Finland	8.50	9.50	9.50	9.00	9.00	9.00	9.00	9.00	9.00	Feb 1, 85
France	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	Aug 31, 77
Germany	5.00	4.00	4.50	4.50	4.50	4.50	4.50	4.50	4.00	Aug 16, 85
Ireland	14.00	12.25	14.00	14.00	12.75	12.75	12.00	11.25	11.25	Jul 30, 85
Italy	18.00	17.00	16.50	15.50	15.50	15.50	15.50	15.50	15.50	Jan 4, 85
Netherlands	5.00	5.00	5.00	5.50	5.50	5.50	5.50	5.50	5.00	Aug 16, 85
Norway	9.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	Jun 6, 83
Portugal	19.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00	Aug 10, 83
Spain	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	Jul 26, 77
Sweden	10.00	8.50	9.50	9.50	9.50	11.50	11.50	10.50	10.50	Jul 12, 85
Switzerland	4.50	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	Mar 18, 83
United Kingdom	10.00	9.00	9.38	13.75	12.25	12.25	12.25	11.31	11.31	Jul 26, 85
Japan	5.50	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	Oct 22, 83
New Zealand	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	Jul, 81
South Africa	15.45	18.50	21.75	22.33	21.25	20.25	19.25	18.25	18.25	Jul 4, 85
Argentina*	10.56	15.10	18.19	20.78	25.82	32.50	6.50	6.00	n.a.	Jul 15, 85
Korea	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	Mar 29, 82
Philippines	6.30	8.05	12.11	11.91	12.08	12.07	n.a.	n.a.	n.a.	May, 85
Singapore	7.00	7.00	6.75	6.50	6.00	5.50	5.50	5.00	n.a.	Jul, 85
Thailand	12.50	13.00	12.00	12.00	12.00	12.00	12.00	11.00	11.00	Jul 26, 85
Venezuela	13.00	11.00	11.00	10.00	10.00	9.00	9.00	9.00	9.00	May 28, 85

*Percent per month.

Day-to-day money rates

monthly averages

	1981	1982	1983	1984	1985						
	Dec	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
United States	12.37	8.95	9.47	8.38	8.35	8.50	8.58	8.27	7.97	7.51	7.88
Canada	14.53	10.63	8.78	10.50	9.75	9.88	10.41	10.25	9.75	9.56	9.27
Austria	7.50	6.00	5.75	7.63	6.75	6.50	6.75	6.88	6.13	6.13	6.13
Belgium	12.45	9.29	7.39	9.12	9.22	8.99	9.13	9.45	8.84	8.00	7.02
Finland	11.30	11.50	16.70	15.07	14.57	14.18	14.00	13.96	13.80	13.77	13.60
France	15.46	12.88	12.27	10.95	10.56	10.65	10.67	10.48	10.17	10.22	9.88
Germany	10.58	6.15	5.61	5.62	5.52	5.78	5.85	5.70	5.67	5.55	5.16
Ireland	16.88	14.54	12.19	14.50	14.63	14.75	14.63	13.63	12.63	12.00	n.a.
Italy	20.63	19.00	17.88	17.25	16.06	16.00	16.00	15.77	15.46	15.25	15.00
Netherlands	10.67	5.31	5.84	5.60	5.78	5.75	6.93	6.74	7.15	6.81	n.a.
Norway	18.60	11.00	12.30	12.50	10.70	12.80	11.60	13.40	12.20	13.00	12.60
Spain	18.73	15.81	16.77	12.11	11.35	12.12	11.99	10.42	12.55	13.93	n.a.
Sweden	13.95	9.31	11.52	11.88	10.58	13.50	13.50	13.49	14.89	16.00	15.39
Switzerland	3.38	1.25	1.88	1.50	2.63	1.75	2.50	2.00	2.25	2.00	2.00
United Kingdom	9.13	6.70	7.78	6.31	7.38	11.94	10.60	12.38	11.26	10.17	12.45
Argentina*	12.84	11.04	4.56	10.88	10.89	11.14	13.34	14.78	15.12	15.27	15.10
Japan	6.70	6.92	6.44	6.41	6.17	6.16	6.42	6.07	6.01	6.13	6.17
South Africa	12.75	14.15	16.06	21.13	22.19	21.56	21.50	21.50	19.81	18.60	17.50
Argentina	6.98	12.77	14.65	17.75	18.63	18.63	20.35	23.74	32.00	24.52	5.00
Brazil	103.74	150.42	184.69	272.02	378.76	287.93	337.15	346.05	302.31	239.40	214.19
Hong Kong	10.75	9.13	13.90	6.80	6.94	6.18	6.15	7.21	5.88	6.35	n.a.
Korea	14.40	13.84	11.40	10.00	8.90	9.30	9.70	9.00	9.50	9.00	9.50
Philippines	14.70	16.12	31.18	15.22	23.15	19.80	27.80	23.97	25.12	25.95	n.a.
Singapore	3.96	11.45	7.05	6.01	5.40	6.07	5.30	4.69	5.75	5.18	4.94

*Percent per month.

Treasury bill rates

bond equivalent yields, at or near end of month

	1981	1982	1983	1984	1985						
	Dec	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
United States	11.90	8.15	9.28	7.99	7.88	8.87	8.42	8.08	7.63	7.05	7.40
Canada	14.41	9.80	9.71	9.84	9.50	11.27	10.40	9.77	9.51	9.33	9.06
Belgium	16.22	12.42	11.00	10.90	10.85	10.85	10.60	9.63	9.13	9.02	9.63
Ireland	18.13	15.25	12.01	15.10	14.59	14.54	13.77	13.43	12.21	11.29	n.a.
Italy	21.36	19.11	16.95	14.69	13.75	13.46	13.38	14.31	14.22	n.a.	n.a.
Netherlands	9.75	5.63	5.63	5.88	6.31	6.51	6.75	7.00	6.75	6.75	n.a.
Spain	n.a.	15.28	14.46	n.a.	11.97	12.04	10.45	11.85	10.33	10.27	n.a.
Sweden	n.a.	12.90	11.75	11.83	13.53	14.28	14.33	14.47	16.48	16.64	15.04
United Kingdom	15.35	9.96	9.04	9.33	11.89	13.91	12.77	12.26	12.16	12.33	11.30
Australia	13.27	9.39	8.54	12.27	12.22	13.51	14.82	14.72	14.25	13.70	14.70
Japan	5.42	5.42	4.91	4.91	4.91	4.91	4.91	4.91	4.91	4.91	n.a.
New Zealand	11.25	11.25	7.80	13.50	17.50	17.45	19.50	23.40	21.00	21.00	24.00
South Africa	14.55	14.62	18.43	21.94	23.05	23.01	22.45	21.92	18.78	16.00	16.48
Brazil	92.62	115.40	179.15	273.03	273.03	273.03	273.03	273.03	215.12	209.88	223.13
Mexico	33.23	57.44	53.78	48.67	48.07	50.00	58.15	57.69	63.34	62.47	74.99
Philippines	13.22	14.54	15.99	47.14	35.69	30.92	34.29	34.22	35.32	33.43	35.32
Singapore	3.03	2.74	2.59	2.91	2.93	2.93	2.97	2.94	3.07	2.79	2.68

Representative money market rates

bond-equivalent yields on major short-term (mostly 3-4 month) money market instruments other than Treasury bills, at or near end of month

	1981	1982	1983	1984	1985						
	Dec	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
United States	12.96	8.94	9.89	8.34	8.17	9.18	8.94	8.39	7.70	7.70	7.85
Canada	15.25	9.95	9.87	10.10	9.65	11.80	10.55	10.20	9.80	9.70	9.25
Belgium	16.00	12.35	11.00	10.70	10.70	10.70	10.45	10.10	9.25	8.90	n.a.
France	15.25	12.75	12.19	10.69	10.31	10.69	10.63	10.31	10.25	10.25	10.00
Germany	10.50	6.20	6.30	5.75	5.85	6.25	6.20	5.90	5.80	5.60	5.00
Ireland	18.50	15.75	12.19	15.13	14.63	14.75	13.75	12.75	12.75	11.69	n.a.
Italy	21.00	19.00	17.88	17.25	16.00	16.13	15.75	15.25	15.00	14.75	14.26
Netherlands	11.00	5.25	6.00	5.75	6.50	7.19	6.88	7.13	6.94	6.69	n.a.
Portugal	13.80	15.05	24.11	24.57	24.57	24.53	24.61	24.52	n.a.	n.a.	n.a.
Spain	15.52	16.55	18.48	12.13	12.27	12.22	12.15	12.34	12.49	14.04	n.a.
Switzerland	10.12	3.88	3.88	5.00	5.63	6.13	5.75	5.38	5.38	5.38	5.38
United Kingdom	15.69	10.50	9.31	9.88	12.50	13.88	13.06	12.56	12.44	12.44	11.13
Australia	16.00	10.65	9.50	12.50	13.55	14.60	15.60	15.70	15.05	15.55	15.15
Japan	6.30	6.80	6.42	6.29	6.26	6.32	6.27	6.25	6.25	6.30	6.20
New Zealand	16.05	16.75	12.10	15.25	18.75	22.75	25.00	23.50	23.20	24.00	25.30
South Africa	15.47	15.26	19.12	22.78	24.07	24.12	23.50	22.09	19.35	17.35	17.80
Chile	30.46	55.90	20.68	20.68	20.68	30.42	27.86	38.93	32.85	n.a.	n.a.
Hong Kong	14.18	10.13	12.84	8.26	7.85	7.64	8.28	7.35	6.96	7.00	n.a.
Indonesia	14.48	18.50	19.50	19.00	19.00	20.50	22.00	19.00	18.00	17.50	15.50
Korea	15.69	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
Malaysia	9.50	8.50	9.80	10.30	9.50	9.30	10.01	9.50	12.00	7.75	n.a.
Philippines	17.70	15.96	15.61	33.21	29.38	26.95	24.73	23.43	26.77	24.90	n.a.
Singapore	7.81	8.69	8.44	7.00	6.03	6.44	6.06	5.31	5.25	5.31	5.13
Taiwan	10.94	9.94	7.65	8.07	6.78	9.14	7.76	6.45	6.98	6.47	6.79
Thailand	14.29	12.25	16.00	12.00	14.00	17.75	16.50	16.00	n.a.	13.00	12.00

Commercial bank deposit rates

at or near end of month

	1981	1982	1983	1984	1985						
	Dec	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
United States	12.62	8.25	9.70	8.35	8.06	9.22	8.80	8.25	7.50	7.57	7.95
Canada	15.20	9.85	9.82	10.05	9.60	11.75	10.50	10.15	9.75	9.65	9.20
Austria	9.63	6.25	6.50	7.50	6.94	6.88	6.88	6.88	6.50	6.50	6.38
Belgium	15.50	12.25	11.25	10.63	10.75	10.87	10.25	9.50	9.00	8.75	9.50
Denmark	10.00	9.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	5.00
Finland	5.00	4.25	5.25	5.25	5.25	4.75	4.75	4.75	4.75	4.75	4.75
France	9.16	8.24	7.66	7.04	6.85	6.90	6.90	6.82	6.67	6.69	n.a.
Germany	9.50	6.00	5.90	5.25	5.35	5.55	5.70	5.45	5.30	5.15	4.45
Ireland	18.38	15.25	11.75	14.63	14.25	14.25	13.50	12.00	11.75	11.25	n.a.
Italy	13.25	13.25	13.25	11.64	11.00	11.00	10.96	10.96	10.88	10.88	10.86
Netherlands	11.00	5.38	6.13	5.69	6.38	7.06	6.81	7.00	6.81	6.63	n.a.
Norway	12.75	13.50	12.75	12.75	12.25	13.00	12.75	12.75	12.40	12.25	12.25
Portugal	14.00	15.00	21.50	27.00	27.00	27.00	27.00	27.00	27.00	27.00	27.00
Spain	11.78	12.53	12.62	11.64	11.34	11.02	10.80	10.61	10.83	10.55	n.a.
Sweden	12.65	12.15	11.70	11.45	13.10	13.65	13.70	13.77	16.13	16.57	14.95
Switzerland	8.75	3.00	3.50	4.50	5.00	5.75	5.25	4.88	4.88	5.13	4.63
United Kingdom	15.69	10.31	9.31	9.88	13.13	13.75	13.00	12.50	12.38	12.31	11.06
Australia	15.65	10.20	10.40	12.75	13.78	13.82	14.95	15.55	14.93	15.40	14.85
Japan	6.50	7.00	6.50	6.38	6.42	6.50	6.36	6.36	6.36	6.30	6.35
New Zealand	15.50	16.50	11.50	15.25	17.00	18.75	20.00	23.00	23.50	23.00	24.50
South Africa	14.75	15.25	20.13	22.88	24.13	23.75	23.63	22.25	20.25	18.00	18.50
Argentina*	7.13	8.50	14.50	31.23	23.42	23.01	25.89	29.59	32.88	7.00	7.00
Brazil	110.05	21.00	23.00	27.00	26.00	25.50	26.50	25.50	25.00	24.00	23.00
Chile	32.24	47.09	20.57	20.68	20.19	30.29	30.00	38.61	32.85	28.80	29.20
Hong Kong	12.50	7.50	9.00	7.00	5.50	5.50	5.00	4.50	4.00	3.50	n.a.
Korea	14.40	7.80	7.60	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Malaysia	10.0[illegible]	8.40	7.75	9.58	9.50	9.50	9.66	9.42	9.67	8.17	n.a.
Mexico	[illegible]	52.54	57.15	47.45	47.45	47.45	51.89	54.50	55.90	59.50	64.35
Philippines	13.35	14.10	14.96	31.01	27.07	24.36	22.12	23.88	21.40	25.95	n.a.
Singapore	7.50	8.25	7.44	6.13	5.44	6.01	5.82	5.01	4.88	5.07	4.88
Taiwan	10.75	7.50	7.00	6.50	6.50	6.50	6.25	6.25	6.25	6.00	6.00
Thailand	10.00	10.00	10.00	13.00	13.00	13.00	13.00	16.00	n.a.	13.00	10.50
Venezuela	14.75	15.50	12.00	12.50	12.00	13.00	11.50	11.50	10.00	10.00	n.a.

*Percent per month.

Domestic government bond yields

long-term issues, at or near end of month

	1981	1982	1983	1984	1985						
	Dec	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
United States	14.33	10.61	12.00	11.61	11.28	12.09	11.92	11.64	10.71	10.62	10.91
Canada	15.27	11.69	12.02	11.66	11.38	12.30	11.93	11.50	10.76	10.88	10.91
Austria	10.37	8.81	8.02	8.04	8.00	8.00	8.06	8.06	8.01	7.87	7.77
Belgium	13.99	12.66	11.89	11.56	11.56	11.58	11.50	11.49	10.78	10.65	11.00
Denmark	20.91	20.14	12.96	14.60	13.66	13.74	13.33	12.87	12.26	12.16	10.76
Finland	10.98	10.64	11.16	10.73	10.84	10.91	10.39	10.34	10.45	10.46	10.48
France	16.44	15.40	13.96	12.70	12.12	12.25	12.27	11.98	11.72	11.83	11.65
Germany	9.71	7.90	8.38	7.17	7.35	7.71	7.44	7.30	7.10	7.02	6.88
Ireland	18.28	14.54	14.25	14.90	14.57	14.74	13.55	13.08	13.17	12.71	n.a.
Italy	21.39	19.70	17.69	14.52	13.22	13.25	13.48	13.53	13.85	13.91	n.a.
Netherlands	11.28	8.16	8.58	7.72	7.42	7.93	8.06	7.73	7.58	7.39	n.a.
Norway	12.37	13.32	12.50	12.00	12.50	12.00	12.38	12.38	12.38	12.70	12.70
Portugal	17.39	16.63	22.11	22.23	20.34	20.69	20.21	20.84	21.82	n.a.	n.a.
Spain	16.20	15.92	17.25	13.93	13.29	13.44	13.49	13.41	13.56	n.a.	n.a.
Sweden	12.80	13.01	12.30	12.04	12.39	13.23	12.93	13.42	13.70	13.48	12.98
Switzerland	5.39	4.23	4.53	4.60	4.68	4.86	4.89	4.75	4.74	4.78	4.80
United Kingdom	15.02	10.62	9.94	10.25	10.65	10.56	10.34	10.42	10.51	10.45	10.16
Australia	15.00	13.00	13.65	13.40	13.12	13.70	13.85	14.05	13.70	13.50	13.50
Japan	8.11	7.96	7.45	6.36	6.37	7.19	6.97	6.85	6.60	6.53	6.38
New Zealand	12.55	12.84	10.50	16.90	17.09	17.35	17.50	17.95	19.64	17.83	17.60
South Africa	13.33	11.31	13.64	16.55	17.25	17.85	16.85	16.40	15.85	15.15	15.90
Philippines	13.01	13.64	14.47	18.54	21.15	24.20	13.69	12.75	n.a.	17.00	n.a.
Venezuela	12.50	15.00	13.50	14.00	13.00	13.50	13.00	12.50	12.50	12.50	12.00

Commercial bank lending rates to prime borrowers

at or near end of month

	1981	1982	1983	1984	1985						
	Dec	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
United States	15.75	11.50	11.00	10.75	10.50	10.50	10.50	10.50	10.00	9.50	9.50
Canada	17.25	12.50	11.00	11.25	11.00	11.50	11.75	10.75	10.50	10.50	10.50
Austria	13.50	11.75	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25
Belgium	18.00	15.50	13.75	14.00	14.00	14.00	14.00	13.50	12.50	12.00	12.00
Denmark	15.00	14.00	10.00	10.50	10.50	10.50	11.00	10.70	10.50	10.50	9.50
Finland	9.84	8.95	10.18	10.68	10.69	10.30	10.36	10.38	10.37	10.37	n.a.
France	14.00	12.25	12.25	12.00	11.50	11.50	11.50	11.50	11.25	11.25	10.85
Germany	13.00	8.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75
Ireland	17.25	16.50	13.75	15.75	15.75	15.75	15.75	14.50	14.50	14.00	13.25
Italy	22.50	20.75	18.75	18.00	17.00	17.00	17.00	17.00	17.00	17.00	17.00
Netherlands	12.00	6.25	7.00	6.25	6.75	7.75	7.50	7.13	7.75	7.75	n.a.
Norway	13.75	14.50	13.50	13.00	11.50	12.88	12.50	12.50	12.90	12.70	12.90
Portugal	20.50	23.50	30.00	29.00	29.00	29.00	29.00	29.00	29.00	29.00	29.00
Spain	17.04	19.00	20.85	13.68	13.73	13.71	13.57	13.75	13.76	14.55	n.a.
Sweden	15.00	15.00	13.50	14.50	14.50	14.50	14.50	14.50	16.25	16.25	15.25
Switzerland	8.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
United Kingdom	14.50	10.00	9.00	9.50	12.00	14.00	13.00	12.50	12.50	12.50	11.50
Australia	15.75	15.00	12.75	13.50	14.25	14.75	16.00	16.50	16.75	17.75	17.50
Japan	6.95	6.28	5.89	5.70	5.70	5.70	5.70	5.70	5.70	5.70	5.69
New Zealand	13.00	13.00	11.00	14.00	14.00	15.00	17.00	n.a.	25.00	25.00	24.00
South Africa	17.00	18.00	20.00	24.00	25.00	25.00	25.00	25.00	23.00	22.00	21.00
Argentina*	7.61	9.00	15.50	32.05	24.25	23.84	26.71	32.47	37.81	8.50	8.50
Brazil	152.40	23.81	24.00	31.00	30.00	29.50	30.50	26.00	25.50	25.00	24.56
Chile	49.54	64.11	30.90	60.82	47.30	47.54	51.00	51.16	46.15	47.28	51.47
Hong Kong	16.00	10.50	13.50	11.00	10.00	10.00	9.50	9.00	8.50	8.00	6.00
Indonesia	19.25	22.00	19.75	23.50	22.50	22.50	23.50	23.00	22.00	21.50	20.75
Korea	16.50	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Malaysia	12.00	12.50	11.00	12.00	12.00	12.00	12.00	12.00	12.00	11.00	n.a.
Mexico	31.81	46.12	56.44	47.54	47.17	47.33	49.36	51.93	53.76	54.92	57.00
Philippines	18.00	18.00	18.00	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Singapore	11.83	9.33	8.98	9.40	9.08	9.03	9.03	8.73	8.48	8.28	8.03
Taiwan	15.25	10.75	10.25	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Thailand	17.00	16.00	16.00	16.50	16.50	16.50	17.00	17.00	n.a.	16.50	16.50
Venezuela	15.50	17.00	16.00	16.00	15.00	15.00	15.00	15.00	14.00	14.00	n.a.

*Percent per month.

Domestic corporate bond yields

long-term issues, at or near end of month

	1981	1982	1983	1984	1985						
	Dec	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
United States	15.50	11.75	12.63	12.25	12.00	13.00	12.50	12.38	11.25	11.25	11.65
Canada	16.18	12.74	12.89	12.42	12.08	12.95	12.46	12.24	11.34	11.50	n.a.
France	17.33	15.86	14.35	12.94	12.44	12.66	12.54	12.40	12.20	12.67	12.65
Germany	10.50	8.20	8.30	7.20	7.20	7.20	7.30	7.30	7.20	7.10	7.10
Netherlands	11.03	7.80	8.51	7.51	7.33	8.00	8.22	7.87	7.62	7.41	n.a.
Norway	13.36	14.13	13.25	12.75	12.75	12.75	13.25	13.25	13.25	13.50	13.50
Spain	14.76	17.10	19.84	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Sweden	12.94	13.37	12.21	12.33	12.34	12.67	13.31	13.19	13.80	13.75	13.25
Switzerland	n.a.	5.80	4.92	5.09	5.06	5.16	5.24	5.14	5.18	5.15	5.16
United Kingdom	16.55	12.34	11.57	11.64	12.06	11.98	11.55	11.56	11.61	11.54	11.22
Japan	7.70	7.55	7.09	6.21	6.46	6.98	6.93	6.82	6.70	6.63	6.55
Korea	26.90	16.00	14.20	15.00	14.70	14.70	14.70	14.60	14.70	14.30	14.00
Venezuela	17.00	18.00	18.00	18.00	18.00	18.00	18.00	17.00	17.00	17.00	n.a.

Key to data in tables

I. International markets

Data on the *international banking market size* are based on resident and nonresident Eurocurrency (i.e., foreign currency) assets and liabilities and on nonresident domestic currency assets and liabilities of banks in nearly all European countres, the Bahamas, Bahrain, Canada, Cayman Islands, Hong Kong, Japan, Netherlands Antilles, Panama, Singapore, and the United States. All assets and liabilities of international banking facilities (IBFs) of banks in the United States are treated as Eurocurrencies.

An *international bond issue* may be either a Eurobond issue or a foreign bond issue. A *Eurobond issue* is one placed principally in countries other than that of the currency in which the bond is denominated, usually through an international syndicate. A *foreign bond issue* is one issued by a nonresident borrower on the market of a single country and denominated in that country's currency. Data on new international bond issue volume include all publicly announced issues of straight bonds, convertibes, bonds with warrants, floating rate notes, and certificates of deposit with an original maturity of three years or more (one year or more beginning in 1985), whether publicly or privately placed.

An *international bank credit* may be either a Eurocurrency credit or a foreign credit. A *Eurocurrency credit* is one denominated in a currency that is foreign to the country of the bank office extending the credit. *A foreign credit* is one extended to a nonresident borrower and denominated in the domestic currency of the country in which the bank office extendng the credit is located. Data on new international bank credit volume include all publicly announced bank credits with an original maturity of one year or more (term loans, revolving lines of credit, and facilities to back up the issuance of other financial instruments such as commercial paper, short-term notes, certificates of deposit and banker's acceptances).

Data on international bond issues and bank credits through 1984 were compiled by Morgan Guaranty Trust Company. Beginning in January 1985 these data are based on figures published in the OECD's *Financial Statistics Monthly*.

II. Domestic markets

Central Bank discount rates

Rates shown are the official discount rates with the exception of:

Ireland — Short Term Facility rate.

South Africa — discount rate for 90 day banker's acceptances.

United Kingdom — rate of discount for outright purchases of 15-33 day bank bills.

Day-to-day money rates

Argentina—7-day interbank money regulated by the Central Bank.

Austria — day-to-day interbank rate.

Australia — approximate effective interest rate in the authorized short-term money market.

Belgium — day-to-day loan rate in the call money market.

Brazil — interbank overnight money.

Canada—chartered banks' day-to-day loans.

Finland — Bank of Finland call money.

France — interbank call money against private paper.

Germany — interbank call money.

Hong Kong — interbank 24-hour call rate.

Ireland — interbank call money.

Italy — interbank 48-hour call money.

Japan—Tokyo interbank call money, unconditional lenders rate.

Korea — call money.

Netherlands — open-market call money.

Norway — day-to-day interbank rate.

Philippines — interbank call loan rate.

Singapore — interbank overnight money.

South Africa — discount houses basic call rate.

Spain — day-to-day interbank rate.

Sweden — interbank call money.

Switzerland — call money.

United Kingdom — call money.

United States — federal funds rate.

Treasury bill rates

Australia — new issues of 13-week Treasury notes.

Belgium — new issue of 3-month Treasury certificates.

Brazil — 3-month Treasury bills.

Canada — 3-month Treasury bills at tender.

Ireland — 3-month central bank exchequer bills at tender.

Italy — 6-month Treasury bills.

Japan — 60- to 62-day noninterest-bearing discount government bills.

Mexico — 3-month Federal Treasury bills.

Netherlands — 3-month Treasury bills.

New Zealand — 3-month Treasury bills.

Philippines — simple average of 91-day Treasury bills at tender until June 1984. Beginning July 1984 rates refer to the weighted average interest rate on 91- to 183-day Treasury bills sold to banks under negotiated basis.

Singapore — 91-day Treasury bills at tender.

South Africa — 3-month Treasury bills at tender.

Spain — Bank of Spain 3-month certificates of deposit used for monetary correction until March 1982. New series as of April 1982, 6-month Treasury bills.

Sweden — new issues of 3-month Treasury bills until June 1982. New series as of July 1982, 6-month Treasury discount notes, market rate.

United Kingdom — 91-day Treasury bills at tender.

United States — 3-month Treasury bills.

Representative money-market rates

Australia — 3-month prime finance company paper.

Belgium — 4-month Fonds des Rentes certificates.

Canada — 3-month prime finance company paper.

Chile — Central bank 60-day fixed rate promissory notes (PDBC) at tender.

France — 3-month interbank money against private paper.

Germany — 3-month interbank deposits.

Hong Kong — 3-month interbank deposits.

Indonesia — 1-month interbank deposits.

Ireland — 3-month interbank deposits.

Italy — 3-month interbank deposits.

Japan — 3-month "gen-saki" rate.

Korea — 3-month financial bill.

Malaysia — 3-month interbank deposits.

Netherlands — 3-month interbank deposits.

New Zealand — 90-day commercial bills.

Philippines—weighted average interest rate for 90-day promissory rates.

Portugal — average of 30- to 90-day interbank deposits.

Singapore — 3-month bank acceptances.

South Africa — 90-day bank acceptances.

Spain — 1-month interbank deposits.

Switzerland — 3-month interbank deposits.

Taiwan — interbank call money.

Thailand — interbank call money.

United Kingdom — 3-month interbank deposits.

United States — 3-month prime industrial paper.

Commercial bank deposit rates

Argentina — nominal 30-day time deposits. Average of bank rates published by the Central Bank until August 1984. New series as of September 1984, 30-day acceptances maximum interest rate.

Austria — 3-month time deposits.

Australia — 3-month certificates of deposit.

Belgium — special maximum rate for 3-month time deposits in large amounts.

Brazil — 6-month certificates of deposit with prefixed yields until July 1982. New series as of August 1982, 6-month certificates of deposit reported as a spread above monetary correction which is set every month in relationship to inflation.

Canada — 3-month time deposits.

Chile — 30-day time deposits.

Denmark — time deposits of 3-months' notice.

Finland — time deposits of six-month notice.

France — 3-month time deposits of FF. 1,000,000.

Germany — 3-month time deposits in large amounts.

Hong Kong — 3-month certificates of deposit. Rate set by the Hong Kong Association of Banks.

Ireland — 3-month deposits.

Italy — 3-month time deposits of Lit. 100 million or more.

Japan — 90-day negotiable certificates of deposit issued by the Tokyo office of Morgan Guaranty Trust Company.

Korea — 3-month time deposits.

Malaysia — 3-month time deposits.

Mexico — 3-month certificates of deposit until September 1983. New series as of October 1983, 3-month promissory notes.

Netherlands — 3-month time deposits in large amounts.

New Zealand — 6-month transferable certificates of deposit.

Norway — 3-month special term deposits.

Philippines — Weighted average interest rates on 60- to 90-day time deposits of sample commercial banks.

Portugal — 90- to 180-day time deposits until May 1984. New series as of June 1984, 180-day to one-year time deposits.

Singapore — 3-month certificates of deposit.

South Africa — 3-month negotiable certificate of deposit.

Key to data in tables — continued

Spain — Deposits over 6 months and less than 1 year for Pts. 1 million or more reported by the Bank of Spain.

Sweden — 3-month certificates of deposit.

Switzerland — 3-month time deposits.

Taiwan — 3-month time deposits.

Thailand — 3-month time deposits.

United Kingdom — 3-month time deposits.

United States — 3-month negotiable certificates of deposit issued by Morgan Guaranty Trust Company.

Venezuela — 6-month negotiable certificates of deposits for domestic depositors only.

Domestic government bond yields

Austria — Austrian National Bank average yield on all outstanding government bonds.

Australia — 20-year government bonds.

Belgium — Belgium National Bank secondary market average yield on Central government bonds of more than 5 years' maturity quoted on Brussels Stock exchange.

Canada — Bank of Canada average yield on all direct government bonds due or callable in 10 years or more.

Denmark — 12% serial bonds maturing 2001 until April 1983. New series as of May 1983, 10% serial bonds maturing 2004.

Finland — rate of interest at issue on central government bonds intended for public subscription, weighted by sales of bonds in the latter half of each month.

France — INSEE secondary market weighted average yield of public sector bonds with a remaining maturity of 10 years or more.

Germany — Frankfurter Allgemeine Zeitung 10-year public authority bond average.

Ireland — 15-year government bonds.

Italy — average yield on fixed-interest government bonds, not including irredeemable bonds, weighted by the amounts in circulation, for maturities of 9-years or more.

Japan — Average yield of national government bonds with maturities of 10 years or more.

Netherlands — Central Bureau of Statistics (CBS) average yield on three latest government bonds.

New Zealand — average yield on government bonds maturing after 10 years.

Norway — 5% government bond of 1996 until December 1982. New series as of January 1983, average yield of long-term government bonds.

Philippines — weighted average interest rate of outright sales on secondary transactions for Central Bank certificates of indebtedness.

Portugal — yield of 4% Centenary Loan of 1940.

South Africa — 25-year government bonds until August 1983; 20-year Republic of South Africa bonds until April 1984; new series as of May 1984, secondary market yield for the 13% due 2005 Republic of South Africa bond.

Spain — weighted average of yields of several central government issues with original maturity of less than five years.

Sweden — 15-year government bonds until October 1983. New series as of November 1983, 5-year government bond yield index, market rate.

Switzerland — Swiss Confederation bond average.

United Kingdom — F.T. (Financial Times) Actuaries 25-year government stock.

United States — Morgan Guaranty 20-year U.S. Government Bond Index.

Venezuela — Banco Central average yield on public-sector bond issues.

Commercial bank lending rates to prime borrowers

Argentina — average rate on 30-day loans.

Austria — overdraft rate for prime borrowers, including commission.

Australia — approximate overdraft rate for prime borrowers.

Belgium — prime overdraft rate.

Brazil — prefixed rate applied to working capital loans until July 1982; monetary-corrected free rate applied to working capital loans from August 1982 to July 1983. New series as of August 1983, maximum legal rate reported as a spread above monetary correction which is set every month in relationship to inflation. Charges for fees and commissions are often added.

Canada — prime rate.

Chile — average prime rate of six major commercial banks.

Denmark — approximate rate for loans and advances to prime borrowers.

Finland — average rates on total commercial bank lending.

France — base lending rate, excluding a commission of .05% per month on highest debit balance during the month. A spread above base rate is often added.

Germany — approximate effective overdraft rate for prime borrowers.

Hong Kong — prime rate.

Indonesia — prime rate for domestic affiliates of foreign companies.

Ireland — AA corporate borrowing rate.

Italy — unsecured overdraft rate for prime borrowers.

Japan — average contracted interest rate for short-term loans of city banks. In addition, compensating balances may be required.

Korea — prime rate.

Malaysia — Bank of Commerce Berhad base lending rate.

Mexico — base rate or average cost of money for banks determined monthly by the Banco de Mexico S.A.

Netherlands — overdraft rate for prime borrowers, including commission.

New Zealand — overdraft rate for prime borrowers.

Norway — overdraft rate, including a commission of .25% per quarter on the total line of credit until January 1983. New series as of February 1983, special rate of first class, large borrowers.

Philippines — prescribed administrative ceiling for unsecured loans with maturities of 365 days and below, including charges until December 1982. New series as of January 1983, modal rate to prime borrowers.

Portugal — maximum rate for 90- to 180-day loans.

Singapore — most common overdraft rate, major banks.

South Africa — unsecured overdraft rate for prime borrowers.

Spain — preferential rate for 1-month loans calculated by the Bank of Spain.

Sweden — overdraft rate for prime industrial borrowers, commission not included.

Switzerland — unsecured overdraft rate for prime borrowers, excluding commission of .25% per quarter on average or highest outstanding debit balance in quarter.

Taiwan — maximum rate for 3- to 12-month secured loans. Rate is an indication only and may vary from actual bank lending rate which is subject to volatile interbank rates.

Thailand — prime rate.

United Kingdom — clearing bank base lending rate. A spread above base rate is often added.

United States — prime rate of Morgan Guaranty Trust Company.

Venezuela — representative rate for domestic prime borrowers only.

Domestic corporate bond yields

Canada — McLeod, Young, Weir Co. Ltd., weighted long-term bond yield index for AA corporates.

France — INSEE secondary market weighted average yield of private company bonds with a remaining maturity of 10 years or more.

Germany — Bundesbank secondary market weighted average yield of industrial bonds with a remaining maturity of more than 3 years.

Japan — secondary market yield for NTT bond maturing March 1987.

Korea — average of yields on 3-year corporate bonds guaranteed by local banks.

Netherlands — CBS average yield on three 6%-6.5% corporate bonds until December 1981. As of January 1982, CBS secondary market weighted average yield on all commercial bank issues with a quotation between 92% and 103%.

Norway — 5.75% Dalen Portland-Cement bond of 1969-1984 until December 1982. New series as of January 1983 average yield of long-term industrial bonds.

Spain — average yield for a selected group of electricity companies.

Sweden — Central Satistical Bureau average yield on Industrial bonds.

Switzerland — average yield on outstanding bonds of four leading Swiss companies. Mixture changed as of January 1982.

United Kingdom — Financial Times secondary market average yield of industrial and financial company debentures and loan stocks with an average of 25 years to maturity.

United States — Salomon Brothers index of new issue yields for Aa industrial bonds with five-year call protection.

Venezuela — average of yields on 15-year bond issues of Electricidad de Caracas.

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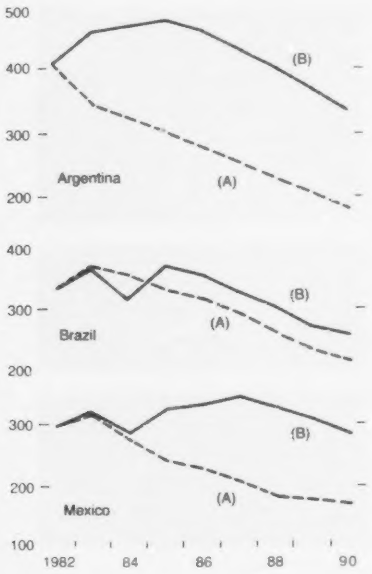

Strengthening the LDC debt strategy

Events of the past twelve months raise questions about the fundamental achievements and future of the cooperative international strategy that has been pursued toward the LDC debt problem. The strategy has had three main prongs: in the industrial countries, sustained and noninflationary economic growth to provide both expanding markets for LDC exports and a substantial fall in international interest rates; in the developing countries, improved resource allocation, reduced inflation, increased exports and domestic savings; and in international capital flows, resumption of net inflows to the debtor countries on the basis of adjustment programs sponsored by the International Monetary Fund. The strategy was medium-term in concept. It was hoped that three or four years would see the Fund's mission accomplished, after which capital needs of the rescheduling countries would once again begin to be provided voluntarily by the markets.

Three years now have passed. The strategy has worked well in correcting the external deficits of the rescheduling countries and in protecting the international banking system. Economic growth in the industrial countries helped debtor countries expand export volume while at the same time allowing most of them some degree of domestic economic recovery. Several countries have secured multiyear restructuring of their bank debt, received infusions of funds from the banks and the IMF, and strengthened their reserve positions. For their part, the banks have substantially bolstered their capital base and have lowered significantly the ratios of their claims on troubled countries to their capital.

The strategy, however, has been less successful in other critical ways. Per capita incomes in the rescheduling countries, although no longer falling, remain on average as much as 10% below precrisis levels (see Table 1). Terms of trade have not improved. The projected decline of external debt-to-exports ratios has not materialized (see Chart 1). The share of export earnings taken up by interest payments has declined little, despite a sharp drop in dollar interest rates. Domestically, basic reforms have been slow in coming. Inflation has risen stubbornly in many cases. And private-sector activity has borne the brunt of adjustment, depressing confidence and productive investment. As a result, capital flight from some LDCs, although smaller than before, still offsets much of the new credit inflow.

It is understandable that a sense

Table 1

Economic growth

	Real GDP growth percent per annum		*Percent change in GDP per capita from 1980-81 peak to 1985*
	1984	*1985*	
Argentina	2.0	—4.0	—17.1
Brazil	4.5	5.0	—5.6
Chile	6.3	1.0	—14.4
Ecuador	4.1	2.5	—6.3
Mexico	3.5	2.5	—9.4
Peru	4.5	3.5	—13.7
Venezuela	—1.8	0.5	—17.1
Nigeria	—0.4	0.0	—25.0
Philippines	—5.3	—3.0	—14.1
Yugoslavia	2.0	3.0	1.5
10 major debtors	2.6	1.9	—9.8

of frustration has taken hold, the more so amid the uncertain outlook for world economic growth, the rise of protectionism, and the weakness of commodity prices. Thus it is tempting to call for grandiose schemes positing the large-scale availability of official money, but such schemes can only raise expectations that are sure to go unmet. Equally unhelpful are proposals for debt forgiveness and the partly or fully automatic capitalization of interest, let alone more drastic, unilateral steps on the part of the debtors. The resulting losses to creditors would defer yet further into the future the restoration of debtor's access both to short-term trade credit and to longer-term foreign loan and equity capital for domestic investment.

Clearly, the cooperative approach has to be given more time and its execution has to be improved, recalling that the prime objectives are the return of adequate economic growth in the rescheduling countries and the normalization of their access to foreign credit. This article endeavors to assess what the strategy has accomplished, to review its weaknesses, and to identify how it can be strengthened.

Table 2

Seven major industrial countries' imports

changes from 1983 Q1 to 1985 Q1
billions of dollars at annual rates and percent

	Imports from					
	All LDCs		*Latin America*		*Ten major debtors**	
	$	*%*	*$*	*%*	*$*	*%*
United States	26.7	29	10.2	32	9.0	28
Canada	1.5	23	0.2	6	0.3	10
Japan	—3.5	—4	—1.2	—20	—1.4	—20
Europe four	—9.7	—9	—1.3	—9	1.0	5
Germany	—1.8	—6	—0.2	—4	0.7	10
France	—6.3	—22	—0.9	—26	—0.4	—8
United Kingdom	—0.3	—2	0.2	9	0.3	12
Italy	—1.3	—4	—0.3	—8	0.4	6
Total of seven	15.0	5	7.9	14	8.9	14

*Argentina, Brazil, Chile, Ecuador, Mexico, Peru, Venezuela, Nigeria, Philippines, and Yugoslavia.

The strategy's broad results

Central to the LDCs' balance of payments improvement and the amelioration of their debt problems has been the recovery of economic activity in the industrial countries. Following the 1980-82 recession, OECD real GNP rose 2.5% in 1983 and jumped nearly 5% in 1984. However, expansion was grossly unbalanced, since monetary policies were generally held tight and only the United States pursued a stimulative fiscal policy. Still, the vigor of U.S. import demand underwrote a 2% gain in world trade volume in 1983 and a further increase of nearly 9% in 1984. Abetted by the dollar's strength, U.S. imports from all countries have risen since the recession by 41% in value and 46% in volume, comparing the first half of 1985 with the second half of 1982. In the same periods the overall imports of Japan and Europe also have risen in volume terms, but only by about 16% and 21%, respectively. Overall, import volume growth of the seven major industrial countries through the first quarter of 1985 averaged 37% over the same period in 1983. The average import value increase of 12% in dollar terms was substantially less, due to low inflation and the strength of the dollar.

Collectively, the ten major rescheduling countries (Argentina, Brazil, Chile, Ecuador, Mexico, Peru, Venezuela, Nigeria, the Philippines, and Yugoslavia) scored a slightly larger gain (14%) in the value of their exports to the principal industrial countries in the same two-year period. Individual experiences varied greatly: Brazil's sales rose more than 40% whereas Chile's were off some 8%. For the group (referred to as the ten major debtors) the 28% increase in sales to the United States was larger than the total rise in sales to the major industrial countries; sales to Europe were up less than

Table 3

Trade and current account performance

cumulative balances, in billions of dollars

	Merchandise trade balance		*Current account balance*	
	1980-1982	*1983-1985*	*1980-1982*	*1983-1985*
Argentina	2.1	11.7	—11.8	—7.0
Brazil	—0.8	31.8	—40.8	—7.5
Chile	—3.4	2.0	—9.0	—4.7
Ecuador	0.6	3.0	—2.8	—0.6
Mexico	—1.4	34.0	—26.0	9.3
Peru	—0.1	2.3	—3.3	—1.5
Venezuela	18.8	20.5	4.5	10.3
Nigeria	7.5	4.9	—8.0	—5.5
Philippines	—6.8	—3.6	—7.2	—4.5
Yugoslavia	—11.5	—2.6	—5.6	1.7
10 major debtors	4.9	103.9	—110.1	—10.0

5%, while those to Japan fell 20%. For Latin American countries, the disproportion in export sales to the United States vis-à-vis those to Europe or Japan was even more pronounced: their U.S. sales climbed 32%, while those to Europe sagged 9% and to Japan plummeted 20% (see Table 2).*

Following the debt crisis, the debtor countries generally realized the need for constructive policy response. Their balance of payments adjustment proved surprisingly swift. By the end of this year, the ten major debtors will have shown a combined three-year, cumulative trade surplus of about $104 billion, whereas in 1980-82 they were in virtual equilibrium (see Table 3). Their aggregate current account deficit during 1983-85 should approach $10 billion, an improvement of $100 billion over the preceding three-year period.

The gains in debtor-country trade balances have accrued mainly from import savings. The combination of currency depreciation and intensified controls achieved extraordinary compression of imports: real GDP of the ten major debtors currently averages about the same as in 1980-81, but the volume of their merchandise imports has been slashed by a third and their dollar value has fallen 40%.

Unfortunately, exports of the ten major debtors, after recovering by more than 11% in 1984 are declining again to 11% below the 1980-81 level. LDC export volumes generally have increased, but neither steadily nor strongly. Only one country out of the ten—Brazil in 1983-84—attained a double-digit rise in export volume two years in a row, but even this boom has since petered out. The oil-exporting countries, such as Mexico, Nigeria, and Venezuela, are having to restrain the volume of oil sales to help stabilize oil prices. The main export problem lies in raw material prices: non-oil commodity prices picked up slightly from mid-1983 through mid-1984 but fell subsequently to levels well below those of 1980-81; oil prices have softened throughout, by 25% since their early-1981 peak. Commodity prices generally have shown scant response to this year's dollar depreciation. As a result, most LDCs continue to experience erosion in their terms of trade.

Outside the commodity field, debtor export performance has been much better. Over a broad range of finished manufactures, Latin America's sales gains to the vital U.S. market have outpaced those of most other exporters. In terms of percentage increases, they surpassed even those of the vaunted Asian NICs (see Table 4). True, the level of Latin America's manufactures exports is still relatively modest, but the recent experience demonstrates ability to compete well in the U.S. market. It also points to the region's

Table 4

U.S. imports

changes in the two years ended Jan-Apr 1985
billions of dollars at annual rates and percent

			Of which			
	All products		*Foods and industrial supplies*		*Finished manufactures*	
Imports from	*$*	*%*	*$*	*%*	*$*	*%*
All countries	102.6	44	21.0	19	79.1	69
OECD	70.7	54	13.7	21	54.6	72
Non-OECD	31.9	31	7.3	12	24.5	62
Latin America	9.8	30	5.2	20	4.8	81
Asia	19.1	46	2.3	38	16.6	62

---

*Some point out that dollar strength has exacerbated the LDC debt burden. Had exchange rates remained unchanged since early 1983, the ten major reschedulers' European sales would have risen 46% — substantially more than their U.S. sales. Similarly, their Japanese sales would have been off only 15%. Their overall sales to the major industrial countries would have risen by 29% in dollar terms, better than twice the reported 14% and enough by itself to lower their average debt-to-export ratio from the actual 308% to 285%. However, these calculations are purely mechanical and should not be used to make quick conclusions. Many features of the world economy would have evolved differently had policies or circumstances produced a stable dollar.

Table 5

*Net capital outflows**

average annual flows, billions of dollars
minus sign denotes net outflows

	1977-80	1981-82	1983-84
Argentina	—3.39	—6.95	—0.24
Brazil	—0.88	0.15	—1.78
Chile	0.13	—0.18	0.35
Ecuador	—0.37	0.12	—0.22
Mexico	—4.00	—8.21	—6.51
Peru	—0.08	0.45	—0.52
Venezuela	—2.06	—7.24	—2.64
Nigeria	—0.32	—2.74	—1.15
Philippines	—0.64	—2.01	0.60
Yugoslavia	—0.52	0.91	—0.58
10 major debtors	—12.13	—25.69	—12.68

*Derived as a residual of current account balance, net foreign direct investment flows, changes in external debt, and changes in official reserves and in the foreign assets of domestic banks.

Table 6

Debt-to-export ratios

average of gross external debt at beginning and end of year as percent of exports of goods and services

	1982	1984	1985
Argentina	405	473	483
Brazil	339	322	368
Chile	333	402	442
Ecuador	240	250	254
Mexico	299	293	322
Peru	251	330	370
Venezuela	169	177	201
Nigeria	85	165	180
Philippines	270	312	342
Yugoslavia	167	166	160
10 major debtors	257	279	308

Table 7

Interest payments-to-export ratios

scheduled interest payments as percent of exports of goods and services

	1982	1984	1985
Argentina	50	56	52
Brazil	54	38	41
Chile	44	44	46
Ecuador	30	30	24
Mexico	44	37	33
Peru	25	33	31
Venezuela	18	16	18
Nigeria	8	11	13
Philippines	24	29	28
Yugoslavia	18	16	15
10 major debtors	34	31	31

substantial long-term potential for producing manufactures competitive in world markets.

Despite gains on external accounts, the foreign debts of the ten major debtors have continued to climb. During 1983-84 their total external obligations rose by an estimated $41 billion, nearly 6% per annum, down sharply from the 20% annual average increase of the preceding three years. More than half this amount effectively covered the capital outflows that still continue from those countries (see Table 5), little more than $5 billion was needed to finance current account deficits, and the remainder served to restore previously depleted international reserves. Against the weak export backdrop, the debt strategy has delivered no improvement in debt-to-export ratios since the crisis. Indeed, the ratios have worsened (see Table 6).

Moreover, the share of the ten debtors' export earnings absorbed by scheduled interest payments has not declined significantly since 1982 (see Table 7) despite the steep fall in nominal interest rates. The six-month dollar LIBOR, for example, has averaged around 8% in the past few months, half the mid-1982 level. Real interest rates, however, are down much less, with nominal rates still unduly exceeding industrial-country inflation rates. Indeed, from the perspective of debtors experiencing continuing declines in the prices of their exports, real interest rates may be said to be rising, not falling.

The IMF has played a pivotal role in shoring up the external finances of most of the troubled borrowers. From the end of 1982 through the middle of this year the IMF extended LDC credits totaling over $15 billion, net of repayments, of which nearly $10 billion went to the ten major debtors (see Tables 8 and 9). The World Bank accelerated the pace of its disbursements, lending a net $14 billion to all LDCs and almost $5 billion to the ten major debtors. The Inter-American Development Bank alone advanced $3½ billion to Latin America, net of repayments. In cooperation with the Fund, the banks have postponed virtually all medium-term obligations falling due during 1983-85 and converted some short-term loans to long-term. Further, to countries adhering to IMF programs, the commercial banks have agreed to provide new money — over $30 billion to the ten major debtors, of which $25 billion has been disbursed. From end-1982 through March of this year, bank claims on the ten rose at an average annual rate of about 2%, after currency valuation adjustment.

The banks have added substantially to their loan-loss reserves, and greatly expanded their capital base. Such actions have allowed the nine U.S. money center banks to reduce their total claims on developing countries in relation to their primary capital from a peak of 287% in 1982 to 214% by the end of March 1985 — lower than at any time since 1977; in the case of their Latin American claims, the corresponding reduction has been from 181% to 139%. As a result, the banks are now less vulnerable than at the onset of the debt crisis to adverse developments affecting their LDC credits.

Current industrial-country growth: too sluggish

The debtors' export earnings are being dampened by the currently sluggish pace of economic growth in the major industrial countries. OECD real GNP growth this year is unlikely to be much above 2.5%, little more than half the 1984 result. On present policies, OECD growth is unlikely to be better in 1986. By squeezing business profits and ex-

Table 8

IMF and World Bank net lending*

billions of dollars

	IMF		World Bank	
	Outstanding credit June 1985	Flows** Dec 82 to June 1985	Outstanding credit June 1985	Flows** Dec 82 to June 1985
Argentina	1.63	1.70	0.55	0.08
Brazil	4.20	4.02	4.25	2.06
Chile	0.79	0.83	0.25	0.07
Ecuador	0.26	0.28	0.22	0.08
Mexico	2.70	2.59	3.20	0.90
Peru	0.65	0.07	0.56	0.18
Venezuela	—	—	0.04	—0.05
Nigeria	—	—	1.02	0.48
Philippines	0.69	—0.06	1.94	0.69
Yugoslavia	1.94	0.38	1.85	0.44
10 major debtors	12.87	9.83	13.88	4.93
Other developing countries	18.94	5.44	26.80	9.16
All developing countries	31.81	15.27	40.68	14.09

*Excludes IDA.
**Adjusted for valuation effects of exchange rate movements.

Table 9

*Use of IMF credit**

as of July 31, 1985

	Millions of dollars	Percent of cumulative access limit**
Yugoslavia	2,020	78
Mexico	2,804	57
Brazil	3,104	50
Philippines	627	34
Ecuador	185	29
Peru	396	28
Chile	519	28
Argentina	868	18
Nigeria	0	0
Venezuela	0	0
10 major debtors	10,523	31

*Excluding compensatory financing facility.
**Limit of 408% of quota.

acerbating unemployment in some sectors, the OECD slowdown also strengthens protectionist impulses that further raise the barriers of industrial-country markets to LDC exports; and it depresses world market prices for manufactured goods, oil, and other commodities exported by LDCs.

Since mid-1984 U.S. domestic demand growth has slowed to an annual rate of 3.3% in real terms, compared with 8.8% earlier in the recovery. As a result, overall U.S. imports during the first seven months of 1985 were up less than 4% year-on-year in value terms. Those from Latin America did not rise at all. Indeed, in the first quarter of 1985 there was slippage in the value of both U.S. and European imports from the major rescheduling countries, and a drastic fall in their sales to Japan. Altogether, the ten major debtors' sales to the principal industrial countries showed a 6% year-on-year decline in early 1985.

Much of the problem is that the slowdown of the U.S. economy has not been compensated for by any substantial speedup by other industrial economies. According to the OECD's midyear projections, Europe's domestic demand growth this year will be less than 2% — no higher than in 1984 — and is unlikely to accelerate materially in 1986; Japan's 1985 domestic growth may be a half point higher than last year's 4%, but will likely fall back to the 3.5%-4% range in 1986.

Although U.S. economic growth is generally expected to pick up in the second half of 1985, it is likely to fall short of the Federal Reserve's 4% real GNP growth projection, let alone the Administration's 5%. U.S. prospects for 1986 are much in question: the industrial sector remains quite weak; and the financial distress in agriculture, which already is cutting into incomes, could well become a negative for next year's output. Despite some encouraging recent signs of resilience, there is no certainty how far, how fast, or how long the U.S. economy will respond positively to the substantial fall in interest rates or the more recent rapid growth of M1. The low-growth world environment encourages industrial-country protectionism which is most prone to hit less sophisticated manufactured products, such as textiles and steel, where the older industrial countries are losing comparative advantage to LDCs. Protectionism already is pervasive in agriculture, where government price supports in the industrial countries bear no relation to supply/demand realities and are particularly injurious to LDC producers of sugar, cereals, and beef.

Protectionist attitudes and practices are solidly entrenched in Europe and Japan, declarations and action programs notwithstanding. The threat of intensified trade restrictions, however, currently focuses on the U.S. market, both by reason of its size and its rapid penetration

Table 10

Gross domestic investment and national savings

as percent of GDP

		Changes	
	Average 1977-80	*1977-80 average to 1982*	*1982 to 1984*
Argentina			
Investment	24.8	—6.9	—3.1
Savings	25.0	—12.6	—1.2
Brazil			
Investment	23.9	—2.6	—4.0
Savings	20.0	—4.5	2.0
Chile			
Investment	17.8	—6.5	2.3
Savings	11.7	—10.0	0.7
Ecuador			
Investment	26.6	—1.4	—5.6
Savings	20.8	—5.3	—2.9
Mexico			
Investment	25.1	—3.9	—4.3
Savings	22.0	—4.2	1.4
Peru			
Investment	15.4	7.3	—6.5
Savings	16.0	0.1	—0.1
Venezuela			
Investment	35.2	—9.3	—14.3
Savings	32.4	—11.9	—2.3
Nigeria			
Investment	26.7	—3.8	n.a.
Savings	27.1	—8.4	n.a.
Philippines			
Investment	30.1	—1.8	—10.1
Savings	24.3	—3.2	—3.1
*Yugoslavia**			
Investment	43.9	—3.7	—3.9
Savings	39.9	—0.3	—2.8

*As percent of gross material product.

by imports during the last several years. Something has to be done soon to narrow the U.S. trade deficit, which has widened to an annual rate of almost $140 billion so far in 1985. The deficit is creating acute problems in some trade-related sectors. The attendant protectionism can hardly be allayed without the prospect for a major reduction of the deficit. Yet, unless Europe and Japan pick up the slack and prove willing to accept reduction of their trade surpluses, U.S. deficit reduction could be no less destructive than protectionism for LDC export prospects.

Sluggish world economic growth further damages the debt strategy by depressing commodity prices and LDC terms of trade. Despite OECD real GNP growth averaging 3.5% since 1982, *The Economist* index of non-oil commodity prices currently stands 2% lower in nominal dollar terms than at the trough of the recession. Nor have prices firmed relative to those of manufactures. Especially disturbing is the 4% decline in dollar non-oil commodity prices since last February, in view of the 7% effective depreciation of the dollar and this year's nearly one-percentage-point decline in LIBOR. If lags are at work, dollar prices should move higher in due course. However, there is no conclusive evidence of such lags. Instead, the prevailing price weakness must be attributed to fundamental imbalances of supply and demand.

A few commodities have bucked the downward price drift: for example, coffee and copper spot prices have averaged about the same so far this year as during the first eight months of 1984. However, non-oil commodity prices in general are 13% lower than a year ago. Burgeoning new supplies are apparent in many cases, adding to already large inventories. This is particularly true of agriculture, where worldwide protectionism spawns chronic oversupply even under average weather conditions. In the case of metals, ample production capacity is now in place following the high prices of the 1970s, while several metals suffer from competition by substitutes or structural decline in demand.

Similarly, petroleum demand is in structural decline thanks to improvements in energy efficiency and to the increasing availability of attractively priced substitutes, notably natural gas, coal, and nuclear energy. Judging from first-half 1985 data, industrial countries' oil consumption will be down 2% this year, undoing last year's increase and reasserting this decade's declining trend. This year also is showing yet another large increase in non-OPEC oil production, squeezing OPEC output to 40% of the market and to barely 60% of its crude oil capacity. So far the upshot has been a controlled erosion of world oil prices, carrying the nominal average oil price roughly 25% lower over the past four years. With several OPEC members, including Saudi Arabia, anxious to boost production, oil price erosion may accelerate. The 1984 experience has demonstrated that it will take a rate of OECD economic growth very much in excess of what seems in store for the year ahead, or a very sharp fall in prices, to reverse the decline in oil demand.

The conclusion must be that with indefinite prolongation of sluggish OECD growth the tide is unlikely to turn soon for commodity prices, at least in real terms. This should exert downward pressure on world inflation and interest rates.

Internal LDC adjustment: reinforcement needed

Despite their balance of payments gains, the debtor countries have much more to do on internal adjust-

Table 11

Consumer prices

percent changes from previous year

	Dec 1981	*Aug 1985*
Argentina	131.3	825.7
Brazil	95.2	219.4
Chile	9.5	36.5
Ecuador	17.3	30.9*
Mexico	28.7	56.0
Peru	72.7	191.6
Venezuela	11.0	13.0**
Nigeria	17.3	22.5***
Philippines	10.6	15.8
Yugoslavia	35.7	69.9*
10 major debtors	59.3	180.0

*July.
**June.
***February.

Table 12

Public-sector deficits

as percent of GDP

	Average 1977-80	*1982*	*1984*
Argentina	—7.4*	—17.7	—12.0
Brazil	—7.6*	—15.8	—23.5
Chile	3.0	—3.4	—3.9
Ecuador	3.0	—6.7	—0.4
Mexico	—7.2	—17.6	—7.6
Peru	—5.4	—9.1	—7.6
Venezuela	1.2*	—12.9	3.5
*Nigeria***	—2.0***	—10.9	—4.5
Philippines	n.a.	—4.8	—3.6

*1979-80.
**Federal government only.
***April 1978 through December 1980.

ment. The growing desire for faster economic growth will not be satisfied unless the recent, uneven advances in fiscal, monetary, wage, and exchange rate policies can be sustained and consolidated. In addition, structural deficiencies must be tackled more forcefully: domestic savings and investment remain depressed, inflation continues at high levels, private-sector confidence has yet to be restored, and productive sectors remain sheltered from outside competition.

Consistency and vigor in the application of sound adjustment policies are indispensable to avoid backsliding. The desire to speed economic recovery, for example, inspired stimulative fiscal and monetary policies in Chile and Mexico during 1984. The resulting growth pickup proved short-lived; fiscal retrenchment and exchange rate adjustment soon became necessary to redress worsening public finances and balance of payments. Likewise in Brazil the authorities have aimed to accelerate economic growth at the expense of their commitment to adjustment, which is waning despite inflation of more than 200%. Yet, complacency in fighting inflation is foolhardy, as the example of Argentina shows clearly. The government's initial attempt to reactivate Argentina's economy yielded next to nothing in terms of growth, helped drive the inflation rate above 1,000%, and led to recession. It is the drastic stabilization program put in place in June 1985 — harsh even by IMF standards — that holds out the promise of a sustainable recovery of economic growth in 1986-87.

Satisfactory economic growth requires improvement in savings and investment. Between the late 1970s and 1982, national savings — the portion of domestic savings not sent abroad in the form of net factor payments (interest, dividends, and worker remittances) — fell significantly in nearly all the ten debtor countries (see Table 10). Large inflows of foreign capital during 1981-82 proved insufficient to offset the decline in domestic savings and the increase in interest payments on external debt. Except in Peru, domestic investment also tumbled, by almost 4% of GDP on average. Nor was the shrinkage of foreign capital inflows during 1983-84 made up by higher national savings. Investment consequently declined by an additional 3.5% of GDP. Only in Chile did it show a modest recovery.

For the foreseeable future, foreign capital inflows cannot be counted upon on a scale sufficient to reverse the investment slide. Stepped-up national savings are the answer. If net foreign capital inflows to the major borrowers remain at the 1984 level relative to GDP, restoration of domestic investment to the high levels of 1977-80 would require national savings to expand by about 6% of GDP on average. Still, such a savings rate would be only slightly above the average of the 1970s.

Improvement in savings rates can be achieved only in a less inflationary environment. Inflation distorts relative prices, hampers investment through uncertainty, and diverts funds into speculation at home and flight capital abroad. For most of the ten major debtors, inflation persists at unprecedented levels, even in such habitually high-inflation countries as Argentina, Brazil, and Peru (see Table 11). All three countries introduced price controls in 1985 in an effort to break inflationary expectations. Controls, however, are likely to be ineffective unless accompanied by much smaller public-sector deficits, as the recent Argentinian program intends.

With the exception of Venezuela, public-sector financing requirements of the ten major debtors in 1984 exceeded those of 1977-80, when access to external borrowing made

Table 13

Public-sector expenditures

as percent of GDP

	Average 1977-80	1982	1984
Argentina			
Total	42.1	48.6	45.0
Capital	11.7	8.2	7.8
Brazil***			
Total	n.a.	n.a.	n.a.
Capital	7.0*	6.7	5.4
Chile			
Total	52.7	59.1	57.7
Capital	7.7	10.3	8.8
Ecuador			
Total	31.1*	32.9	28.0
Capital	7.1*	9.7	7.7
Mexico			
Total	32.0	46.9	38.0
Capital	8.9	10.7	6.4
Peru			
Total	45.8	60.0	56.1
Capital	6.8	10.5	8.9
Venezuela			
Total	35.9**	43.1	34.5
Capital	15.8**	23.6	13.9
Nigeria****			
Total	n.a.	27.6	13.7
Capital	n.a.	16.8	5.4
Philippines****			
Total	12.6	15.6	13.7
Capital	2.4	3.0	1.9
Yugoslavia*****			
Total	40.3*	33.4	29.6

*1980.
**1979-80.
***State enterprises, including social security fund and financial institutions.
****Central government only.
*****As percent of gross material product.

Table 14

Net foreign direct investment flows

annual averages, in millions of dollars
minus sign denotes net outflows

	1977-80	1981-82	1983-84
Argentina	368	601	226
Brazil	1834	2424	1454
Chile	149	373	108
Ecuador	54	50	50
Mexico	1225	1968	443
Peru	44	87	—26
Venezuela	52	219	72
Nigeria	54	487	320
Philippines	53	94	50
Total	3833	6303	2697

possible growing fiscal gaps. Most of those debtor countries have, however, reduced their public-sector deficits since 1982 through a combination of moderate wage increases, more realistic pricing of public goods and services, higher tax revenues, and cutbacks in investment. The exceptions are Brazil and, to a lesser degree, Chile (see Table 12).

However, all still have room for improvement. Further progress requires paring the public-sector presence in the economy. In fact, total public-sector spending as a share of GDP has fallen in all the debtor countries for which 1983-84 data are available, mainly through sharp cuts in capital expenditures. The major oil-exporting countries show the steepest drops (see Table 13). With investment already fairly low and opportunities for major new tax revenues limited, current outlays must now be the cutting edge of fiscal retrenchment. Until now, forthright pruning of current expenditures has been postponed because some of the debtor countries have failed to marshal the necessary political will. Politically unpalatable actions, such as termination of large numbers of redundant state employees, have been avoided.

In addition, the scope of public-sector activity has to undergo substantive redimensioning. Private-sector participation in state enterprises continues to be quite limited. Governments have divested few of the assorted commercial activities in which they enjoy no particular expertise. Mexico has taken modest steps in the latter direction by initiating the sale, transfer, or liquidation of the government's stake in about 250 small commercial enterprises. Although these represent only about 25% of all state enterprises and a much smaller share in terms of value added, the decision, if vigorously implemented, represents a significant departure from the country's statist tradition.

High inflation and large public-sector claims on financial savings continue to conspire against restoration of private-sector confidence, which has been battered by large devaluations, exchange controls, import cutbacks, and the slowdown in aggregate demand. Confidence further suffers from the perception that higher interest rates and taxes place the main burden of adjustment on the private sector. Uncertainty about inflation, exchange rates, and interest rates gives impetus to capital flight. The acid test for stabilization in the debtor countries is to stem this drain and at least to create a climate that encourages the repatriation of funds held abroad by their own residents.

Improved local conditions and more favorable regulatory treatment also would send an important signal to foreign investors, who have curtailed new direct investments in those countries by about 60% since the 1981-82 peak (see Table 14). A more hospitable regulatory environment is slowly emerging. Examples are recent decisions on the oil sector in Argentina, the personal computer field in Mexico, and generally in Ecuador and Yugoslavia. Progress remains disappointing, however, given the potential benefits from strengthened links to export markets and infusions of equity capital and advanced technology.

Trade policies represent another weakness in the adjustment effort. Initial responses to the debt crisis included a tightening of quantitative controls on imports. In many debtor countries trade barriers sheltering local producers are higher today than before the crisis and the structure of protection varies too widely. The resulting unevenness of incentives across sectors impedes the growth of agricultural and raw material exports and undermines the development of efficient manufacturing capable of competing abroad. The negative effects often are not offset by the currency devaluations that have taken place since 1982. Fortunately, there are signs that some governments are beginning to overcome the stiff resistance to external market forces from well-entrenched business and labor groups. Recently, Mexico, Chile, Argentina, and the Philippines announced measures to dismantle import controls, lower tariff duties, and simplify export procedures. The success of these initiatives depends heavily, however, on the consistent and constant application of supportive macroeconomic policies. Exchange rate competitiveness in particular is vital. It should not be allowed to slip, as in Nigeria, the Philippines, Venezuela, and, until last July's correction, Mexico.

Financing flows to LDCs need upgrading

A number of the ten debtor countries will need net new external financing in the coming years, as well as further rescheduling of existing debts. The financing will continue to come largely from three sources: the multilateral institutions, principally the IMF and World Bank; official export credit agencies; and commercial banks. However, flows from these sources, together with recently reduced levels of domestic savings, may not be adequate to support acceptable rates of economic growth.

The IMF is on its way to becoming a net recipient rather than provider of funds to LDCs. Requests for IMF financial assistance peaked in 1983 but have since slowed to pre-1981 levels. Drawings are now about equal to repayments of previous borrowings from the Fund (see Table 15). These repayments are scheduled to climb to $6 billion next year and almost $8 billion in 1987.

Table 15

Use of IMF credit

billions of dollars

	Borrowings	Repayments	Net
*Actual**			
1979	2.20	5.30	—3.10
1980	4.41	4.16	—0.25
1981	7.98	2.46	5.52
1982	8.22	1.81	6.41
1983	13.49	2.17	11.32
1984	7.47	2.36	5.11
1985 Jan-Jul	2.04	1.91	0.13
*Scheduled***			
1985 Aug-Dec		1.79	
1986		6.07	
1987		7.94	
1988		7.04	
1989		5.26	
1990		3.39	

*SDR amounts converted at average SDR/dollar rate for period.

**SDR amounts converted at SDR1=$1.

This trend is advocated by those who believe that repeated and prolonged use of IMF resources is inconsistent with the Fund's "monetary character." In their view, the IMF's principal function is to bring about balance of payment adjustment and give temporary balance of payment financing. Reflecting this view, access to Fund resources was tightened for 1985, and further restrictions may be considered for 1986. As a result, some countries requesting continuing assistance from the IMF are receiving conditional loans equivalent to as little as 40% to 50% of their quota on a per annum basis, half the financing available to them two or three years ago. The recently approved standby arrangements for Korea and Yugoslavia, for example, contemplate drawings that fall short of their scheduled repayments. Should Brazil or Mexico wish to enter into a second extended-facility arrangement, they too could find — as Chile discovered several months ago when it requested a three-year facility — that new loans from the Fund roughly match the repayments of principal from prior drawings falling due after 1986. Meanwhile, for such commodity-exporting countries as Argentina, Brazil, Chile, and Peru, drawing rights under the compensatory financing facility have been mostly or fully used up.

The Fund's lending role could be further curbed if the Enlarged Access (EA) policy, introduced in 1981 to replace the Supplementary Financing Facility (SFF), were to be phased out entirely. The EA policy has enabled countries to borrow more than would have been available had the IMF relied solely on quotas for its funding. However, a report of the Group of Ten industrial countries has recommended the policy be phased out. Already, the Fund

Table 16

*Use of World Bank credit**

millions of dollars

	Annual averages		First half
	1980-82	1983-84	1985
Argentina	46	23	38
Brazil	299	935	190
Chile	13	14	37
Ecuador	29	36	8
Mexico	320	299	299
Peru	81	68	45
Venezuela	—22	—19	—9
Nigeria	66	185	106
Philippines	262	331	27
Yugoslavia	180	177	87
10 major debtors	1274	2049	828
All borrowers	3948	5714	2658

*Disbursements minus repayments of principal. Excludes IDA.

Table 17

World Bank policy-based lending

average annual commitments
billions of dollars

	FY1980-82	FY1983-84	FY1985
Structural adjustment loans	0.7	1.2	0.2
as % of total	4.9	8.0	1.4
Sector policy loans	0.4	1.1	1.1
as % of total	2.9	7.4	7.6
Total policy-based lending	1.1	2.3	1.3
as % of total	7.8	15.4	9.0

is repaying its borrowings under the SFF and will soon begin repaying the medium-term funds provided by Saudi Arabia for the establishment of the EA. No further arrangements have been made to provide medium-term funds for the EA policy, and by mid-1987 the remaining commitments of short-term funds will have expired. In all, as the Fund gradually reverts to reliance on quota subscriptions, the limits on access to its resources may well shrink to those that prevailed in relation to quotas prior to the mid-1970s.

The World Bank's role in meeting the financing needs of the ten major debtors since 1982 has been rather disappointing. Its annual commitments have remained flat during the last two fiscal years and are 20% below the FY 1983 level. The Bank has continued to concentrate on project lending, even though this has proven inadequate to meet the pressing financing needs of the major debtors. Moreover, the Bank has been slow to improve the attractiveness of commercial bank cofinancing and to make use of its guarantee authority.

Nonetheless, during 1983-84 the Bank's annual disbursements to a few major debtors increased significantly. It accelerated disbursements of existing loans under the Special Action Program (SAP) and, especially to Brazil, provided quick-disbursing sector-policy loans. Other countries, such as Mexico, were slow to take advantage of the Bank's new procedures while public investment cutbacks curtailed demand for new project financing. Thus, with a few exceptions, the SAP and other measures had only marginal financial impact (see Table 16).

Structural Adjustment Loans (SALs), initiated in 1980, and the more-recently introduced sector-policy loans respond to the perceived need to broaden the scope of World Bank financing. They aim to support policy and institutional reforms at the macroeconomic or sectoral level through fast-disbursing loans — usually with a one-to-three-year drawdown, compared with nine years for project loans. Disbursements are tied to policy improvements in key areas such as financial intermediation, foreign trade, state-enterprise management, public-sector investment, and the pricing of key domestic commodities. However, these new schemes account for only a small share of the Bank's total lending (see Table 17).

Among the ten major debtors, only the Philippines and Yugoslavia have received SALs; another is in preparation for Chile. The Bank's lukewarm commitment to policy-based lending partly reflects industrial-country reluctance to countenance significant departures from project lending. In addition, LDCs, particularly in Latin America, are weary of policy conditionality, especially when it is additional to and for a longer time than that of the IMF. LDCs also oppose World Bank/IMF cross-conditionality. Thus, continued restraint of public-sector investment in the debtor countries, their reluctance to accept conditionality, and the Bank's current focus and procedures all conspire against a meaningful increase in new World Bank financing.

Official export credit agencies, the main source of bilateral official lending, have continued to provide new financing to the major debtor countries. Growth of their credits has even accelerated in a few instances, notably Mexico and the Philippines. However, for the ten major debtors as a group, new official export financing — through guarantees and insurance issued to commercial bank lenders and nonbank suppliers, and in some countries, through direct lending by the agencies themselves — has slowed since the debt crisis (see Table 18). The debtors' invest-

Table 18

*Official export credits from OECD countries**

annual average net flows
billions of dollars

	1979-81	*1982-84*	*Outstandings as of Dec 1984*
Argentina	0.25	—0.16	2.7
Brazil	1.25	0.49	10.5
Chile	—0.04	—0.03	0.6
Ecuador	0.13	—0.04	0.6
Mexico	0.58	0.96	7.1
Peru	0.19	—0.09	1.3
Venezuela	0.15	—0.03	1.6
Philippines	0.20	0.41	3.5
Nigeria	0.51	0.90	6.0
Yugoslavia	0.48	0.32	3.9
10 major debtors	3.70	2.74	37.7
Other developing countries	8.80	6.06	121.5
All developing countries	12.50	8.80	159.2

*Export credits insured or guaranteed by, or extended directly by, official export credit agencies in OECD countries. Includes loans extended by commercial banks that are insured or guaranteed.

Table 19

*Commercial bank net lending**

billions of dollars

	1983	*1984*	*Q1 1985*	*Outstandings as of Mar 1985*
Argentina	0.5	—0.8	0.1	26.2
Brazil	1.5	6.6	—0.2	76.7
Chile	0.5	0.6	—0.1	13.6
Ecuador	0.1	—0.1	0.0	4.9
Mexico	4.1	0.7	—0.1	72.1
Peru	—0.3	—0.8	—0.1	5.6
Venezuela	—0.7	—2.7	—0.1	25.2
Nigeria	1.2	—1.0	0.7	8.7
Philippines	—0.3	0.1	—0.5	13.3
Yugoslavia	0.4	0.6	—0.2	9.5
10 major debtors	7.0	3.2	—0.5	256.0
Other developing countries	14.5	5.3	—1.9	194.8
All developing countries	21.5	8.5	—2.4	450.8

*Changes in BIS-reporting banks' claims adjusted for the estimated valuation effects of exchange rate movements.

ment slowdown has been partly responsible, because the export of capital goods is frequently financed by officially supported export credits. Export credit agencies also have cut back new financing in response to their perceptions of increased risks. In several cases, export credit guarantees and insurance coverage have been restricted to short-term operations, or suspended entirely, for those debtors requesting Paris Club rescheduling of bilateral official credits or whose export credits fall into arrears. Moreover, some agencies have been slow to restore coverage after rescheduling is completed. Thus, though essential to debt restructuring, Paris Club reschedulings, which have been negotiated by eight of the ten major debtors, have had some negative consequences.

Commercial bank lending to developing countries also has fallen below expectations. BIS-reporting banks' claims on all LDCs grew within the originally expected 5%-7% range during 1983 — by \$21½ billion, or 6.6% — but rose by only \$8½ billion, or 2%, in 1984. In the first quarter of 1985 they actually declined by nearly \$2½ billion, or 0.5%. Between the end of 1982 and March 1985, BIS-reporting banks' claims on the ten major debtors rose by less than \$10 billion, despite more than \$24 billion of new money disbursements (see Table 19). The bulk of the difference stemmed from repayments of existing loans, mostly to the private sector, and from net declines of trade credits and interbank lines. New money facilities have recently been completed or are nearing completion for several countries with IMF-supported adjustment programs — for example, Argentina, Chile, and Ecuador. In Brazil a multiyear restructuring offered by the banks cannot be implemented until the country reaches agreement with the IMF.

Recommendations

As the preceding analysis shows, weaknesses have surfaced in each of the three prongs of the cooperative international approach to the LDC debt problem: the global environment is not as supportive as it could be; financial flows to the troubled LDCs are insufficient; and the debtor countries have lagged in making internal adjustments and opening their economies to international competition. Plainly, the present cooperative approach needs more time and its implementation has to be improved.

As for the global environment, the first priority must be to take advantage of the present low inflation in the leading industrial countries to boost economic growth. OECD real GNP growth of barely 2.5% needs to be pushed upward into the 3%-3.5% range — not simply to benefit the LDCs, but to advance the self-interest of the industrial countries. The prescription for Europe is to emphasize expansionary demand policies, including fiscal action, which would reduce Europe's high unemployment and assist efforts at structural adjustment. Japan also could use domestic demand stimulus to curb its disruptive trade surplus.

For the United States, concern centers on how best to assure a reduction of interest rates. There is little justification for 8½% dollar LIBOR or long-term U.S. Treasury yields of almost 11%. These rates are very high in real terms, given the flat or falling prices facing the agricultural and energy sectors of the U.S. economy, not to mention commodity exports of LDCs. If the economy fails to pick up, the Federal Reserve is not likely to risk loss of credibility if it moves to push interest rates down. Lower rates should be conducive to a lower dollar. Dollar commodity prices should benefit from a lower dollar as well as from a speedup in aggregate demand growth in the industrial countries. This summer's budget compromise, which holds prospects for lowering the budget deficit from its present level exceeding 5% of GNP to about 3% over the next three years, should help interest rates decline, although it is unclear to what degree in a world of free international capital movements.

Stronger OECD economic growth also would help slow the protectionist tide that menaces LDC exports and world prosperity generally. If the U.S. protectionist clamor is to be held in check, concrete measures will have to be taken to ensure that the widening U.S. trade deficit is turned around — cutting it by, say, $100 billion within three years or so. To achieve this mainly by contraction of U.S. imports would be counterproductive for world economic growth — and extremely harmful for the LDCs, given the significance of the U.S. market. The U.S. trade deficit, therefore, is not simply a U.S. problem but a global challenge that calls for Japan and Europe to put aside their deep-seated mercantilist instincts in favor of importing more and rooting out barriers to trade. The U.S. administration's calls for a new multilateral trade round therefore merit strong support. Applying the "Section 301" provision of the 1974 U.S. Trade Act, which aims to eliminate unfair trade practices abroad by limiting foreign access to the U.S. market, or threatening to do so, probably is politically necessary. However, such an initiative is not without risks and, if it does not succeed in eliminating trade barriers, it may in the end raise them. Altogether, it is important that not only Japan and Europe but also the major developing countries see the wisdom of participating actively in trade liberalization.

The shareholders of the IMF and the World Bank should adjust these institutions' lending activities to today's new realities. The long-established concept that the Fund mainly provides temporary balance of payments financing is predicated on the notion that private credit market access would be restored once a country's current account deficit is corrected. In the past two or three decades this process normally has taken about two years. In the present situation, current account correction has once again occurred very quickly. However, the critical difference this time is that current account adjustment has not proved sufficient to restore either market access or confidence among residents sufficient to produce a reflow of capital. In addition to trade-balance improvements, borrowing countries are expected to bring about structural economic and financial reforms that will increase domestic savings, open up investment opportunities, and make their industries more competitive internationally. In this difficult and prolonged adjustment process, which goes well beyond current account correction in the LDCs, the role of the IMF ought to remain central, although it should be shared increasingly with the World Bank.

Petroleum-exporting countries, in particular, need to work closely with the Fund to adapt their economies to the reality of weak oil markets. Most commodity-exporting countries likewise would find it advisable to maintain a good working relationship with the IMF, in order to cushion the impact of low commodity prices. Even countries such as Argentina, Brazil, and Yugoslavia, capable of running a balanced or surplus current account position while they recover and grow, can benefit from Fund advice and involvement in view of their domestic macroeconomic problems.

However, in light of the heavy schedule of repayments to the IMF that most LDCs now face, current access rules to Fund resources seem to be unrealistic. They yield a negligible or even negative net flow of IMF financing at a time when alternative sources of support are scarce and likely to remain so in the foreseeable future. Yet, debtor countries need to have a strong incentive to keep coming to the Fund. By the same token, commercial banks and official creditors need a Fund program to be persuaded to keep on providing financing. Only an IMF that is positioned to disburse meaningful amounts of new financing will have the necessary clout.

The existing ceilings on use of Fund resources should be reviewed, therefore, to see how they may be increased or at least applied in a more flexible manner. At present, annual and three-year access limits take no explicit account of the burden of repayments on prior borrowings. The cumulative ceiling of 408% to 450% of quota, which is defined net of scheduled repayments, is being applied so conservatively that most countries seeking Fund assistance are being offered loans that keep them well below the ceiling. Although the Fund's resources are ample, they may have to be supplemented, once access guidelines are changed, by a new medium-term borrowing from today's surplus countries — particularly Japan — much as was obtained from Saudi Arabia several years ago.

The World Bank should increase its support to the major debtors. Its traditional emphasis on project financing should be changed, because the large LDCs have already made many investments that now need to be managed productively. In those countries, the Bank needs to demonstrate greater willingness to back, with sizable and quick-disbursing loans, the kind of long-postponed sectoral policy reforms that can yield major economic benefits. Besides, policy-based lending can be the vehicle for delivering significantly larger amounts of commercial bank cofinancing than are now possible through project loans. Additional bank funds could be marshaled by use of the Bank's guarantee authority.

First steps in the right direction were taken in recent financing packages for Chile and Colombia, which featured the World Bank prominently alongside the IMF — in Chile by a structural adjustment loan and a partially guaranteed cofinancing, and in Colombia by a trade-policy loan. These arrangements encourage policy reform and are innovative in raising new commercial bank financing. The two packages also mark the kind of World Bank-IMF cooperation urged by the Group of Ten. The time is long past for bureaucratic turf battles that obstruct innovation and effectiveness.

For the time being, the World Bank can step up its lending without requiring a capital increase. However, should the demand for Bank financing surge beyond the commitment level of $13 billion per annum, particularly with a quickened pace of disbursements, an increase in authorized capital eventually would become necessary. Such action would complement the recent doubling of International Finance Corporation capital.

The official export credit agencies of the industrial countries also need adequate financial backing and should adopt more flexible policies. The practice of reducing or even denying guarantees and insurance to countries that request debt relief via the Paris Club should be applied only in exceptional circumstances. Governments represented at the Paris Club should be willing to consider, as they did in the case of Ecuador, multiyear reschedulings of official bilateral debt for countries that have negotiated multiyear agreements with commercial banks.

Further, the agencies should widen the scope of their financing beyond capital goods to include materials and parts needed for better utilization of existing investments. This technique was used in 1983 by the U.S. Export-Import Bank, but the facility was hardly used because of administrative problems and lack of demand in the borrowing countries. However, it should be tried again.

Commercial banks should explore innovative approaches to LDC financing. Ways have to be found to maintain the participation of as large a number of lending institutions as possible by such features as options to lend in home currencies and, within individual countries, to lend at least a portion of new funds to borrowers of their own choosing. Tying new money facilities to the financing of trade or specific projects, which generate additional foreign exchange earnings, could be useful. Consideration also may be given to multiyear new money facilities. Finally, the attitude of bank regulators and supervisors can make a major difference. They should avoid requiring across-the-board loan-loss provisions — such as those imposed by officials in Canada, Japan, and some European countries — that fail to differentiate among the various debtors, and acknowledge promptly countries that make significant progress.

The greatest contribution that rescheduling countries can make to normalizing their access to foreign credit and achieving the per capita income growth they need is to press forward with the reforms discussed earlier in this article. Thus, working in conjunction with the IMF and the World Bank, they should move forcefully to curb inflation by cutting down their bloated public sectors, scrap controls that crimp the vitality of their private sectors, and open up their economies to outside competition and investment. These are the means necessary to make their own citizens confident that opportunities for saving and investing at home can be as rewarding as those abroad, and to attract foreign companies with the modern technology, export marketing know-how, and access to external financing that many local firms have not developed.

There are no magic formulas or easy solutions to the LDC debt problem. The lesson from countries such as Turkey, and others that encountered debt servicing problems earlier, is that even after the necessary reforms are made, it takes more than a few years for voluntary lending to return. In the meantime, LDC economic growth must be export-oriented, and an increased flow of foreign credit must be linked to policy reforms and structural adjustment and to stepped up industrial-country exports to the LDCs. This is the way not only to combat protectionism but also to achieve the twin objectives of renewed economic expansion and normalized access to external financing.

Statistical appendix

For key to data in tables
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Information herein is from sources considered to be reliable but is furnished without responsibility on the part of Morgan Guaranty Trust Company.

Nominal effective exchange rates

Index numbers, 1980-82 average=100.

	United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Belgium	Netherlands	Spain	Switzerland	Denmark	Norway	Sweden
1980	90.7	100.4	95.5	96.0	106.5	100.0	108.4	99.8	99.4	105.9	100.2	106.5	95.4	105.1	98.2	103.9
1981	99.5	100.2	105.8	104.0	100.4	97.2	98.8	102.1	98.9	101.8	97.1	99.4	98.3	99.2	100.1	103.3
1982	109.8	99.4	98.6	100.1	93.1	102.8	92.8	98.1	101.7	92.3	102.7	94.1	106.3	95.7	101.7	92.8
1983	114.2	100.8	107.8	92.0	87.3	107.6	90.3	91.6	103.6	90.0	105.0	78.4	111.5	96.4	99.4	82.2
1984	122.4	97.3	113.0	94.2	84.4	107.4	86.7	88.1	103.6	88.9	104.0	77.4	110.5	93.9	97.8	84.3
1984																
September	127.3	96.7	112.0	92.1	83.6	106.2	85.9	87.1	103.2	88.9	103.1	76.9	109.3	93.2	96.9	85.6
October	128.5	96.6	112.0	93.6	83.7	106.3	85.7	85.3	103.2	88.7	103.2	77.0	109.8	93.4	97.1	85.6
November	126.8	96.5	112.5	95.0	84.0	106.7	85.6	85.2	103.4	89.3	103.5	77.4	110.2	94.2	95.5	85.1
December	129.5	96.7	112.0	94.8	83.6	106.1	86.0	83.7	103.2	89.3	103.0	77.8	109.5	94.5	95.5	85.0
1985																
January	132.0	96.9	110.5	93.8	83.7	106.2	86.3	81.0	103.4	89.9	103.0	78.1	107.8	95.0	95.7	85.0
February	136.4	95.3	110.0	86.8	83.5	105.8	85.4	81.4	103.3	89.3	102.5	77.6	105.9	94.4	95.8	85.5
March	136.9	93.2	111.3	81.5	83.7	105.9	83.7	84.0	103.0	89.0	102.5	77.2	105.8	94.3	95.7	84.6
April	131.7	93.6	111.5	74.2	84.5	106.7	83.0	88.1	103.8	89.2	102.9	77.5	108.0	94.5	96.0	83.6
May	132.0	92.9	111.5	76.3	84.4	106.5	82.9	89.2	103.5	89.0	102.9	76.5	107.4	93.7	96.0	83.8
June	130.5	93.2	112.2	74.2	84.4	106.5	83.0	90.4	103.6	88.9	103.0	76.3	107.6	94.3	95.8	83.8
July	126.1	93.5	113.1	75.4	85.3	107.1	81.5	93.6	103.8	89.0	103.5	75.5	109.7	94.5	95.7	83.7
August	124.0	92.8	113.6	75.4	86.3	108.7	80.0	91.4	104.7	89.6	104.8	75.2	112.2	95.0	95.6	83.1
August 2	123.9	93.1	113.8	76.7	86.2	108.3	78.9	93.1	104.4	89.4	104.5	75.5	112.5	95.4	94.0	84.4
9	124.9	92.9	113.9	76.4	86.1	108.4	80.2	90.4	104.6	89.8	104.7	75.3	111.3	95.4	95.7	83.3
16	123.6	92.8	113.5	75.2	86.3	108.9	80.0	91.5	104.8	89.0	104.9	75.2	112.3	95.5	95.6	83.0
23	123.2	92.8	113.5	74.9	86.4	108.9	80.1	91.5	104.8	89.6	104.8	75.3	112.8	95.3	95.6	83.0
30	123.8	92.5	113.5	75.0	86.3	108.7	79.9	92.1	104.7	89.5	104.7	75.2	112.5	94.9	95.5	82.9
September 6	126.1	92.3	113.4	74.5	85.8	108.1	80.0	91.7	104.4	89.4	104.3	75.0	111.3	94.6	95.8	83.3
13	127.8	92.4	113.4	73.7	85.7	107.8	80.0	90.3	104.3	89.3	104.3	74.4	111.0	94.4	95.9	83.7

Real effective exchange rates — industrial countries

Index numbers, 1980-82 average=100.

	United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Belgium	Netherlands	Spain	Switzerland	Denmark	Norway	Sweden
1980	89.4	99.6	103.0	93.0	102.1	103.5	103.5	99.9	100.2	107.5	99.9	100.9	98.7	103.5	96.6	101.2
1981	100.6	100.0	104.6	102.7	100.1	97.3	98.7	102.3	99.1	100.3	97.6	99.4	98.7	99.2	100.9	102.1
1982	109.9	100.4	92.3	104.3	97.8	99.2	97.8	97.9	100.7	92.3	102.5	99.8	102.6	97.3	102.5	96.7
1983	112.7	103.1	96.6	100.0	96.1	99.3	100.1	92.0	101.7	92.0	101.8	90.6	104.4	98.8	101.3	91.5
1984	118.2	101.2	97.6	105.1	96.8	96.5	101.1	89.3	102.7	90.9	100.1	95.0	99.4	96.5	100.1	96.9
1984																
September	121.5	101.4	96.8	103.7	96.3	95.2	101.0	88.3	102.0	90.8	99.2	95.6	97.9	97.2	99.5	98.9
October	123.6	100.4	96.0	105.0	96.5	95.2	100.8	86.8	101.8	90.6	98.8	96.0	98.8	96.6	100.1	99.1
November	122.0	100.4	96.2	106.5	97.0	95.2	101.2	86.8	102.5	91.8	98.6	96.9	98.7	98.0	98.3	98.3
December	123.9	101.1	95.7	106.6	98.0	94.5	101.4	85.4	102.3	91.4	98.0	97.5	98.0	98.1	98.0	98.7
1985																
January	125.9	101.6	94.2	105.4	97.1	94.9	102.6	83.2	102.3	91.6	98.0	98.6	96.4	97.8	97.4	99.4
February	129.7	100.0	93.5	97.9	97.0	94.5	101.7	83.8	102.0	91.4	97.4	98.5	95.0	96.3	98.0	100.2
March	129.6	98.1	94.0	92.5	97.6	94.0	99.8	86.5	101.6	91.6	97.5	98.0	95.5	97.4	98.3	99.6
April	125.1	98.2	93.6	84.9	98.8	94.6	99.2	91.2	102.4	91.3	98.0	98.9	96.4	98.3	98.5	98.0
May	126.0	97.2	93.0	87.7	99.2	94.3	98.9	92.3	102.0	90.3	98.4	97.8	95.4	97.6	99.3	98.0
June	124.6	97.6	93.1	85.9	99.8	93.9	99.5	93.5	102.1	90.3	98.9	97.1	95.9	97.0	98.9	97.8
July	120.3	97.8	93.5	88.1	101.2	94.2	97.9	96.8	102.2	90.3	99.6	96.2	97.6	97.7	98.9	97.3
August	117.8	97.5	93.7	88.8	103.0	95.5	96.3	94.7	103.0	90.7	101.2	96.0	99.5	98.4	98.5	96.6

Real effective exchange rates – developing countries

Index numbers, 1980-82 = 100

	Argentina	Brazil	Chile	Colombia	Mexico	Peru	Venezuela	Hong Kong	Indonesia	Korea	Malaysia	Philippines	Singapore	Taiwan	Israel	Turkey
1980	116.4	84.8	95.2	94.7	104.0	93.1	91.3	98.4	89.6	95.9	96.2	93.3	98.6	100.9	92.9	100.2
1981	107.7	103.2	108.1	100.4	114.1	103.2	99.6	99.4	99.6	101.2	99.3	101.2	102.7	102.6	99.3	104.4
1982	75.9	112.0	96.7	104.8	81.9	103.8	109.1	102.2	110.8	102.9	104.5	105.5	98.7	96.5	107.7	95.4
1983	71.2	85.6	88.7	104.0	78.0	97.7	116.1	96.6	95.7	97.3	112.7	95.1	97.1	93.1	119.5	92.8
1984	79.9	85.5	89.8	99.3	91.5	105.8	85.6	100.3	96.7	95.9	119.1	107.4	95.8	95.5	118.3	90.6
1984																
August	85.7	86.3	92.4	99.3	91.3	109.1	83.6	100.8	97.4	96.4	121.3	106.4	96.2	97.6	119.1	91.8
September	88.7	88.6	93.1	100.1	94.2	109.7	85.8	103.6	97.4	97.7	123.3	113.8	96.9	98.9	122.0	94.0
October	82.0	89.9	89.5	98.4	96.3	107.9	87.5	105.3	97.8	97.3	121.1	112.4	96.1	98.2	122.0	94.5
November	73.7	88.4	88.1	97.4	95.8	104.8	87.8	104.7	96.5	96.3	119.7	109.0	95.0	96.6	122.0	95.4
December	76.1	91.1	86.9	98.0	96.1	101.6	89.0	107.1	98.7	96.8	121.3	111.9	95.5	97.4	114.2	95.5
1985																
January	75.0	94.1	88.1	99.0	97.8	98.4	90.3	108.8	100.0	97.0	120.5	118.4	95.7	98.3	109.5	98.0
February	77.1	93.0	89.5	99.7	100.2	96.9	94.4	111.5	101.1	97.9	119.4	123.4	95.7	99.4	119.5	102.3
March	76.5	96.7	82.8	96.6	100.9	92.2	94.3	112.1	99.9	96.2	118.1	123.3	95.7	98.6	115.9	101.4
April	76.2	89.0	81.5	92.1	98.9	91.1	92.4	108.7	98.6	92.1	118.0	118.7	94.3	96.1	112.5	96.3
May	76.7	84.2	82.8	90.2	97.9	91.3	95.2	108.8	98.2	91.1	118.9	117.4	93.1	95.2	104.6	94.2
June	75.6	80.9	84.7	88.6	97.4	90.9	98.4	108.3	97.8	89.9	118.4	116.9	92.3	94.5	105.2	89.9
July	68.1	78.7	76.6	84.4	93.6	89.1	98.4	105.9	95.0	87.6	115.6	116.0	90.6	91.7	99.0	86.2

International banking market size

at end of period, billions of dollars

	1981	1982	1983	1984				1985
				Mar	Jun	Sep	Dec	Mar
Gross claims								
Eurocurrencies, on residents and nonresidents	**1 929**	**2 146**	**2 253**	**2 339**	**2 330**	**2 322**	**2 352**	**2 461**
On nonbanks	557	634	665	685	679	676	684	708
On banks	1 372	1 512	1 588	1 654	1 651	1 646	1 668	1 753
In dollars	1 504	1 694	1 797	1 841	1 850	1 857	1 887	1 974
In other currencies	425	452	456	498	480	465	465	514
Domestic currencies, on nonresidents	**365**	**398**	**398**	**400**	**406**	**393**	**397**	**402**
On nonbanks	128	132	136	136	140	138	137	140
On banks	237	266	262	264	266	255	260	262
In dollars	188	211	217	206	218	208	210	201
In other currencies	177	187	181	194	188	185	187	201
Total	**2 294**	**2 544**	**2 651**	**2 739**	**2 736**	**2 715**	**2 749**	**2 863**
On nonbanks	685	766	801	821	819	814	821	848
On banks	1 609	1 778	850	1 918	1 917	1 901	1 928	2 015
In dollars	1 692	1 905	2 014	2 047	2 068	2 065	2 097	2 148
In other currencies	602	639	637	692	668	650	652	715
Gross liabilities								
Eurocurrencies, to residents and nonresidents	**1 954**	**2 168**	**2 278**	**2 362**	**2 360**	**2 349**	**2 383**	**2 481**
To nonbanks	372	432	479	500	503	492	500	508
To official monetary institutions	112	91	88	85	88	94	96	96
To other banks	1 470	1 645	1 711	1 777	1 769	1 763	1 787	1 877
In dollars	1 539	1 741	1 846	1 882	1 905	1 912	1 949	2 001
In other currencies	415	427	432	480	455	437	434	480
Domestic currencies, to nonresidents	**263**	**250**	**258**	**262**	**277**	**274**	**277**	**289**
To nonbanks	74	70	71	71	71	72	77	78
To banks	189	180	187	191	206	202	200	211
In dollars	126	116	133	128	140	140	143	143
In other currencies	137	134	125	134	137	134	134	146
Total	**2 217**	**2 418**	**2 536**	**2 624**	**2 637**	**2 623**	**2 660**	**2 770**
To nonbanks	446	502	550	571	574	564	577	586
To banks and official institutions	1 771	1 916	1 986	2 053	2 063	2 059	2 083	2 184
In dollars	1 665	1 857	1 979	2 010	2 045	2 052	2 092	2 144
In other currencies	552	561	557	614	592	571	568	626
Net market size	**1 155**	**1 285**	**1 377**	**1 395**	**1 417**	**1 407**	**1 415**	**1 442**

International bond issues and bank credits

millions of dollars

	1982	1983	1984	1985			Jan-Jun	
				Apr	May	Jun	1985	1984
By country of borrower								
Industrial countries	**108 772**	**102 652**	**177 077**	**17 234**	**16 863**	**21 631**	**100 857**	**97 330**
Australia	7 213	5 737	5 816	838	698	1 480	5 181	2 158
Austria	2 068	1 290	2 254	112	241	350	1 395	1 427
Belgium	1 528	2 168	1 847	336	21	610	1 597	887
Canada	15 856	8 571	13 124	400	579	1 786	9 230	4 929
Denmark	2 725	3 941	4 825	440	222	503	1 956	2 651
Finland	1 446	1 271	1 713	60	56	181	840	1 011
France	14 813	8 626	11 298	914	208	2 174	6 954	5 456
Germany	1 101	3 197	2 165	50	287	329	1 056	1 163
Greece	808	1 291	1 551	200	450	187	1 306	550
Ireland	1 136	1 869	1 377	191	39	267	898	264
Italy	6 687	4 876	6 933	1 958	771	395	6 973	2 220
Japan	8 397	14 428	17 526	1 763	1 425	1 852	10 853	11 263
Netherlands	1 000	1 213	1 973	133	123	383	896	1 527
New Zealand	4 786	802	3 208	—	266	468	1 219	1 152
Norway	2 601	1 969	1 324	135	—	1 268	1 887	641
Portugal	1 684	1 030	1 796	68	138	103	1 120	1 045
South Africa	1 889	1 300	1 422	201	73	217	692	968
Spain	2 675	4 977	4 931	616	695	300	2 645	3 248
Sweden	3 181	7 144	11 256	512	2 644	491	5 955	8 958
United Kingdom	2 836	2 726	8 899	2 198	3 648	1 937	9 806	3 938
United States	21 109	20 276	65 054	5 829	4 160	5 953	27 134	40 047
*Other**	3 233	3 950	6 785	282	123	399	1 266	1 827
Developing countries	**49 023**	**38 256**	**39 725**	**1 687**	**3 402**	**1 505**	**12 024**	**23 082**
Latin American countries	**29 667**	**15 592**	**17 464**	**286**	**152**	**130**	**1 297**	**11 806**
Argentina	1 565	1 750	4 212	—	—	—	—	12
Brazil	5 972	4 475	6 649	—	—	—	—	6 500
Chile	1 194	1 405	784	—	—	—	—	784
Colombia	776	552	589	—	52	—	52	229
Mexico	9 968	5 138	3 918	—	—	—	—	3 883
Venezuela	7 241	237	—	—	—	—	—	—
*Other***	2 951	2 035	1 312	286	100	130	1 245	398
Asian countries	**11 723**	**12 978**	**15 893**	**811**	**2 196**	**1 232**	**7 632**	**7 351**
India	555	968	945	21	—	10	348	352
Indonesia	1 822	2 363	1 924	—	400	24	424	1 074
Korea	3 277	4 387	6 201	418	429	908	3 118	2 847
Malaysia	2 872	2 197	2 605	92	120	81	1 011	1 390
Philippines	888	878	925	—	925	—	925	—
Thailand	414	747	1 221	—	75	41	666	683
Other	1 895	1 438	2 072	280	248	168	1 141	1 005
Middle Eastern and African countries	**7 633**	**9 686**	**6 368**	**590**	**1 055**	**144**	**3 096**	**3 925**
Algeria	86	1 993	821	—	700	—	1 300	200
Nigeria	2 069	2 343	985	—	—	—	—	985
Turkey	277	1 106	741	500	28	—	579	600
Other	5 201	4 244	3 821	90	327	144	1 217	2 140
Eastern European countries	**1 479**	**1 294**	**3 244**	**480**	—	**457**	**2 035**	**1 652**
Hungary	340	741	1 386	25	—	357	651	885
Soviet Union	1 131	93	1 051	333	—	—	539	528
*Other****	8	460	807	122	—	100	845	239
International organizations****	**11 353**	**16 201**	**13 287**	**1 706**	**2 499**	**870**	**9 756**	**5 497**
By type of instrument and currency								
International bond issues	**76 042**	**76 329**	**107 411**	**12 347**	**16 636**	**13 975**	**80 107**	**50 624**
Eurobonds	51 645	48 501	79 458	9 816	14 504	11 885	67 038	35 052
U.S. dollar	43 959	38 428	63 593	7 125	11 325	9 197	51 837	27 888
German mark	2 588	3 817	4 604	435	1 133	811	3 677	2 239
British pound	748	1 947	3 997	433	525	185	2 446	1 757
Japanese yen	374	212	1 212	478	180	—	1 866	348
European composite units	1 980	2 019	3 032	738	658	666	3 198	1 535
Other	1 996	2 078	3 020	607	682	1 026	4 016	1 285
Foreign bonds	26 397	27 828	27 953	2 531	2 132	2 090	13 068	15 572
U.S. dollar	5 946	4 545	5 487	308	509	200	2 157	3 287
German mark	2 952	2 671	2 243	145	65	113	802	1 018
British pound	1 214	811	1 292	92	—	—	157	744
Swiss franc	11 432	14 299	12 626	662	1 031	1 178	5 985	7 915
Japanese yen	3 418	3 772	4 628	1 195	387	337	2 990	1 783
Other	1 435	1 730	1 677	129	140	262	977	825
International bank credits	**92 585**	**82 074**	**125 922**	**8 760**	**6 129**	**10 488**	**44 565**	**76 937**
Eurocurrency credits	85 015	74 222	112 605	8 548	5 676	10 069	41 693	71 478
Foreign credits	7 570	7 852	13 317	212	453	419	2 873	5 459
Total	**170 627**	**158 403**	**233 333**	**21 107**	**22 765**	**24 463**	**124 672**	**127 561**

*Includes multinational organizations. **Includes unallocated. ***Includes COMECON institutions. ****Includes regional development organizations.

Eurocurrency deposit rates

prime banks' bid rates, at or near end of month

	1982	1983	1984	1985						
	Dec	Dec	Dec	Feb	Mar	Apr	May	Jun	Jul	Aug
Eurodollar										
overnight	9.25	9.50	8.63	8.44	8.81	8.31	7.50	8.00	8.50	7.56
one month	9.13	9.69	8.38	8.88	8.69	8.38	7.56	7.63	7.94	7.94
three months	9.19	9.81	8.63	9.44	9.00	8.69	7.63	7.75	8.19	8.00
six months	9.50	10.06	9.13	10.00	9.44	9.00	7.88	7.88	8.44	8.13
twelve months	9.63	10.38	9.81	10.75	10.13	9.75	8.38	8.25	8.88	8.56
Euro-Canadian dollar										
one month	10.00	9.13	9.88	10.38	10.38	9.50	9.50	9.00	8.69	8.75
three months	10.00	9.50	10.81	11.19	10.56	9.81	9.50	9.38	8.94	8.94
six months	10.13	9.75	10.06	11.75	10.69	10.38	9.63	9.50	9.31	9.19
twelve months	10.25	10.00	10.44	12.06	12.00	10.75	9.94	9.63	9.50	9.50
Euro-French franc										
one month	23.00	12.13	10.69	10.63	10.63	10.31	10.13	10.50	14.00	9.88
three months	24.00	12.19	10.69	11.00	10.81	10.44	10.25	10.63	14.00	10.63
six months	22.00	12.31	11.00	11.44	11.25	10.75	10.38	10.75	13.75	11.50
twelve months	19.75	12.63	11.38	11.88	11.56	10.94	10.63	11.25	13.00	11.75
Euromark										
one month	5.88	5.25	5.50	5.81	5.69	5.75	5.50	5.44	4.69	4.50
three months	5.88	5.88	5.50	6.06	5.88	5.81	5.56	5.44	4.81	4.50
six months	5.94	6.13	5.56	6.38	6.06	5.88	5.56	5.50	4.94	4.56
twelve months	6.00	6.38	5.56	6.56	6.25	6.06	5.56	5.63	5.00	4.69
Euro-Dutch guilder										
one month	5.13	5.81	5.69	6.81	6.69	6.94	7.00	6.75	6.06	5.75
three months	5.19	6.00	5.75	7.06	6.81	6.94	6.88	6.69	6.00	5.69
six months	5.38	6.25	5.81	7.13	6.88	6.94	6.88	6.69	6.00	5.69
twelve months	5.63	6.38	5.94	7.31	6.94	7.00	6.81	6.69	6.00	5.69
Euro-Swiss franc										
one month	2.81	3.38	4.44	5.50	5.19	5.00	5.13	5.13	4.38	4.44
three months	3.25	3.75	4.56	5.75	5.50	5.19	5.13	5.25	4.50	4.56
six months	3.44	3.94	4.63	5.81	5.56	5.25	5.06	5.25	4.63	4.69
twelve months	3.44	3.94	4.69	5.63	5.44	5.25	5.00	5.25	4.69	4.63
Eurosterling										
one month	10.56	9.13	9.50	14.00	13.56	12.75	12.63	12.69	11.50	11.88
three months	10.44	9.31	9.88	13.88	13.13	12.69	12.44	12.44	11.19	11.63
six months	10.31	9.50	10.00	13.13	12.31	12.44	12.50	12.25	11.00	11.13
twelve months	10.31	9.81	10.19	12.69	11.94	12.13	12.01	11.94	10.88	11.06
Euroyen										
one month	6.75	6.25	6.19	6.50	6.25	6.13	6.31	6.19	6.25	6.44
three months	6.75	6.31	6.19	6.38	6.31	6.25	6.25	6.25	6.31	6.38
six months	7.10	6.38	6.13	6.31	6.31	6.31	6.25	6.25	6.25	6.31
twelve months	6.81	6.44	6.13	6.31	6.31	6.31	6.31	6.31	6.25	6.31
European currency unit										
one month	12.44	8.81	9.25	9.94	10.00	9.38	9.31	9.38	8.50	8.00
three months	12.31	9.19	9.38	10.06	10.13	9.56	9.31	9.38	8.50	8.50
six months	12.00	9.44	9.50	10.13	10.13	9.69	9.38	9.38	8.63	8.75
twelve months	11.19	9.63	9.63	10.13	10.25	9.88	9.50	9.38	8.75	8.88

International bond yields

average yield of several actively traded, high quality issues with a maturity of 7 to 12 years at or near end of month

	1983	1984	1985							
	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
United States companies										
Eurodollar	11.59	11.25	11.05	11.65	11.73	11.24	10.58	10.49	10.65	10.37
Euromark	7.34	6.95	7.19	7.57	7.35	7.11	6.90	6.91	6.74	6.67
Swiss franc	5.83	5.73	5.85	5.95	5.86	5.74	5.69	5.69	5.69	5.60
European governments										
Eurodollar	12.65	12.04	11.72	12.40	12.29	11.97	11.20	11.17	11.31	11.11
Euromark	8.12	7.39	7.54	7.88	7.61	7.54	7.37	7.38	7.17	6.89
Swiss franc	5.63	5.24	5.17	5.35	5.34	5.21	5.20	5.22	5.16	5.09
European currency unit	11.77	10.64	10.62	10.65	10.44	10.39	10.10	10.17	9.99	10.01

Central bank discount rates

at or near end of month

	1982	1983	1984	1985					Current	
	Dec	Dec	Dec	Apr	May	Jun	Jul	Aug	Sep 17 1985	effective since
United States	8.50	8.50	8.00	8.00	7.50	7.50	7.50	7.50	7.50	May 17, 85
Canada	10.05	9.96	10.09	10.02	9.76	9.58	9.31	9.20	9.27	Sep 12, 85
Austria	4.75	3.75	4.50	4.50	4.50	4.50	4.50	4.00	4.00	Aug 19, 85
Belgium	11.50	10.00	11.00	11.00	9.50	9.25	9.50	10.00	9.50	Sep 9, 85
Denmark	10.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	Oct 27, 83
Finland	8.50	9.50	9.50	9.00	9.00	9.00	9.00	9.00	9.00	Feb 1, 85
France	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	Aug 31, 77
Germany	5.00	4.00	4.50	4.50	4.50	4.50	4.50	4.00	4.00	Aug 16, 85
Ireland	14.00	12.25	14.00	12.75	12.75	12.00	11.25	11.25	10.25	Sep 11, 85
Italy	18.00	17.00	16.50	15.50	15.50	15.50	15.50	15.50	15.50	Jan 4, 85
Netherlands	5.00	5.00	5.00	5.50	5.50	5.50	5.50	5.00	5.50	Feb 1, 85
Norway	9.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	Jun 6, 83
Portugal	19.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00	Aug 10, 83
Spain	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	Jul 26, 77
Sweden	10.00	8.50	9.50	9.50	11.50	11.50	10.50	10.50	10.50	Jul 12, 85
Switzerland	4.50	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	Mar 18, 83
United Kingdom	10.00	9.00	9.38	12.25	12.25	12.25	11.31	11.31	11.31	Jul 26, 85
Japan	5.50	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	Oct 22, 83
New Zealand	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	Jul, 81
South Africa	15.45	18.50	21.75	21.25	20.25	19.25	18.25	16.50	16.50	Aug 20, 85
Argentina*	10.56	15.10	18.19	25.82	32.50	6.50	6.00	6.00	n.a.	Jul 15, 85
Korea	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	Mar 29, 82
Philippines	6.30	8.05	12.11	12.08	12.07	n.a.	n.a.	n.a.	n.a.	May, 85
Singapore	7.00	7.00	6.75	6.00	5.50	5.50	5.00	5.00	n.a.	Jul, 85
Thailand	12.50	13.00	12.00	12.00	12.00	12.00	11.00	11.00	11.00	Jul 26, 85
Venezuela	13.00	11.00	11.00	10.00	9.00	9.00	9.00	9.00	9.00	May 28, 85

*Percent per month.

Day-to-day money rates

monthly averages

	1982	1983	1984	1985							
	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
United States	8.95	9.47	8.38	8.35	8.50	8.58	8.27	7.97	7.51	7.88	7.90
Canada	10.63	8.78	10.50	9.75	9.88	10.41	10.25	9.75	9.56	9.27	8.97
Austria	6.00	5.75	7.63	6.75	6.50	6.75	6.88	6.13	6.13	6.13	5.38
Belgium	9.29	7.39	9.12	9.22	8.99	9.13	9.45	8.84	8.00	6.97	8.17
Finland	11.50	16.70	15.07	14.57	14.18	14.00	13.96	13.80	13.77	13.60	13.43
France	12.88	12.27	10.95	10.56	10.65	10.67	10.48	10.17	10.22	9.88	9.68
Germany	6.15	5.61	5.62	5.52	5.78	5.85	5.70	5.67	5.52	5.16	4.83
Ireland	14.54	12.19	14.50	14.63	14.75	14.63	13.63	12.63	12.00	11.50	10.75
Italy	19.00	17.88	17.25	16.06	16.00	16.00	15.77	15.46	15.25	15.00	14.53
Netherlands	5.31	5.84	5.60	5.78	5.75	6.93	6.74	7.15	6.81	6.63	5.92
Norway	11.00	12.30	12.50	10.70	12.80	11.60	13.40	12.20	13.00	12.60	12.75
Spain	15.81	16.77	12.11	11.35	12.12	11.99	10.42	12.55	13.93	n.a.	n.a.
Sweden	9.31	11.52	11.88	10.58	13.50	13.50	13.49	14.89	16.00	15.39	15.00
Switzerland	1.25	1.88	1.50	2.63	1.75	2.50	2.00	2.25	2.00	2.00	2.50
United Kingdom	6.70	7.78	6.31	7.38	11.94	10.60	12.38	11.26	10.17	12.45	11.25
Argentina*	11.04	4.56	10.88	10.89	11.14	13.34	14.78	15.12	15.27	15.10	n.a.
Japan	6.92	6.44	6.41	6.17	6.16	6.42	6.07	6.01	6.13	6.17	6.17
South Africa	14.15	16.06	21.13	22.19	21.56	21.50	21.50	19.81	18.60	17.50	16.25
Argentina	12.77	14.65	17.75	18.63	18.63	20.35	23.74	32.00	24.52	5.00	5.00
Brazil	150.42	184.69	272.02	378.76	287.93	337.15	346.05	302.31	239.40	214.19	n.a.
Hong Kong	9.13	13.90	6.80	6.94	6.18	6.15	7.21	5.88	6.35	4.95	2.74
Korea	13.84	11.40	10.00	8.90	9.30	9.70	9.80	9.50	9.00	9.50	9.70
Philippines	16.12	31.18	15.22	23.15	19.80	27.80	23.97	25.12	25.95	n.a.	n.a.
Singapore	11.45	7.05	6.01	5.40	6.07	5.30	4.69	5.75	5.18	4.94	4.37

*Percent per month.

Treasury bill rates

bond equivalent yields, at or near end of month

	1982	1983	1984	1985							
	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
United States	8.15	9.28	7.99	7.88	8.87	8.42	8.08	7.63	7.05	7.40	7.36
Canada	9.80	9.71	9.84	9.50	11.27	10.40	9.77	9.51	9.33	9.06	8.95
Belgium	12.42	11.00	10.90	10.85	10.85	10.60	9.63	9.13	9.02	9.63	9.63
Ireland	15.25	12.01	15.10	14.59	14.54	13.77	13.43	12.21	11.29	10.38	10.43
Italy	19.11	16.95	14.69	13.75	13.46	13.38	14.31	14.22	14.18	14.08	n.a.
Netherlands	5.63	5.63	5.88	6.31	6.51	6.75	7.00	6.75	6.75	6.25	5.75
Spain	15.28	14.46	n.a.	11.97	12.04	10.45	11.85	10.33	10.27	n.a.	n.a.
Sweden	12.90	11.75	11.83	13.53	14.28	14.33	14.47	16.48	16.64	15.04	15.00
United Kingdom	9.96	9.04	9.33	11.89	13.91	12.77	12.26	12.16	12.33	11.30	11.31
Australia	9.39	8.54	12.27	12.22	13.51	14.82	14.72	14.25	13.70	14.70	n.a.
Japan	5.42	4.91	4.91	4.91	4.91	4.91	4.91	4.91	4.91	4.91	4.91
New Zealand	11.25	7.80	13.50	17.50	17.45	19.50	23.40	21.00	21.00	24.00	n.a.
South Africa	14.62	18.43	21.94	23.05	23.01	22.45	21.92	18.78	16.00	16.48	15.72
Brazil	115.40	179.15	273.03	273.03	273.03	273.03	273.03	215.12	209.88	223.13	n.a.
Mexico	57.44	53.78	48.67	48.07	50.00	58.15	57.69	63.34	62.47	74.99	n.a.
Philippines	14.54	15.99	47.14	35.69	30.92	34.29	34.22	35.32	33.43	35.32	n.a.
Singapore	2.74	2.59	2.91	2.93	2.93	2.97	2.94	3.07	2.79	2.68	2.79

Representative money market rates

bond-equivalent yields on major short-term (mostly 3-4 month) money market instruments other than Treasury bills, at or near end of month

	1982	1983	1984	1985							
	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
United States	8.94	9.89	8.34	8.17	9.18	8.94	8.39	7.70	7.70	7.85	7.91
Canada	9.95	9.87	10.10	9.65	11.80	10.55	10.20	9.30	9.70	9.25	9.15
Belgium	12.35	11.00	10.70	10.70	10.70	10.45	10.10	9.25	8.90	n.a.	9.60
France	12.75	12.19	10.69	10.31	10.69	10.63	10.31	10.25	10.25	10.00	9.75
Germany	6.20	6.30	5.75	5.85	6.25	6.20	5.90	5.80	5.60	5.00	4.65
Ireland	15.75	12.19	15.13	14.63	14.75	13.75	12.75	12.75	11.69	10.50	10.38
Italy	19.00	17.88	17.25	16.00	16.13	15.75	15.25	15.00	14.75	14.26	14.25
Netherlands	5.25	6.00	5.75	6.50	7.19	6.88	7.13	6.94	6.69	6.13	5.75
Portugal	15.05	24.11	24.57	24.57	24.53	24.61	24.52	n.a.	n.a.	n.a.	n.a.
Spain	16.55	18.48	12.13	12.27	12.22	12.15	12.34	12.49	14.04	n.a.	n.a.
Switzerland	3.88	3.88	5.00	5.63	6.13	5.75	5.38	5.36	5.38	5.38	4.63
United Kingdom	10.50	9.31	9.88	12.50	13.88	13.06	12.56	12.44	12.44	11.13	11.56
Australia	10.65	9.50	12.50	13.55	14.60	15.60	15.70	15.05	15.55	15.15	n.a.
Japan	6.80	6.42	6.29	6.26	6.32	6.27	6.25	6.25	6.30	6.20	6.30
New Zealand	16.75	12.10	15.25	18.75	22.75	25.00	23.50	23.20	24.00	25.30	n.a.
South Africa	15.26	19.12	22.78	24.07	24.12	23.50	22.09	19.35	17.35	17.80	16.50
Chile	55.90	20.68	20.68	20.68	30.42	27.86	38.93	32.85	n.a.	n.a.	n.a.
Hong Kong	10.13	12.84	8.26	7.85	7.64	8.28	7.35	6.96	7.00	6.11	5.41
Indonesia	18.50	19.50	19.00	19.00	20.50	22.00	19.00	18.00	17.50	15.50	15.50
Korea	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
Malaysia	8.50	9.80	10.30	9.50	9.30	10.01	9.50	12.00	7.75	7.00	8.50
Philippines	15.96	15.61	33.21	29.38	26.95	24.73	23.43	26.77	24.90	n.a.	n.a.
Singapore	8.69	8.44	7.00	6.03	6.44	6.06	5.31	5.25	5.31	5.13	4.56
Taiwan	9.94	7.65	8.07	6.78	9.14	7.76	6.45	6.98	6.47	6.79	8.33
Thailand	12.25	16.00	12.00	14.00	17.75	16.50	16.00	14.50	13.00	12.00	12.00

Commercial bank deposit rates

at or near end of month

	1982	1983	1984	1985							
	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
United States	8.25	9.70	8.35	8.06	9.22	8.80	8.25	7.50	7.57	7.95	7.88
Canada	9.85	9.82	10.05	9.60	11.75	10.50	10.15	9.75	9.65	9.20	9.10
Austria	6.25	6.50	7.50	6.94	6.88	6.88	6.88	6.50	6.50	6.38	5.75
Belgium	12.25	11.25	10.63	10.75	10.87	10.25	9.50	9.00	8.75	9.50	9.31
Denmark	9.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	5.00	n.a.
Finland	4.25	5.25	5.25	5.25	4.75	4.75	4.75	4.75	4.75	4.75	4.75
France	8.24	7.66	7.04	6.85	6.90	6.90	6.82	6.67	6.69	n.a.	6.49
Germany	6.00	5.90	5.25	5.35	5.55	5.70	5.45	5.30	5.15	4.45	4.25
Ireland	15.25	11.75	14.63	14.25	14.25	13.50	12.00	11.75	11.25	10.00	10.00
Italy	13.25	13.25	11.64	11.00	11.00	10.96	10.96	10.88	10.88	10.86	10.86
Netherlands	5.38	6.13	5.69	6.38	7.06	6.81	7.00	6.81	6.63	6.00	5.69
Norway	13.50	12.75	12.75	12.25	13.00	12.75	12.75	12.40	12.25	12.25	12.00
Portugal	15.00	21.50	27.00	27.00	27.00	27.00	27.00	27.00	27.00	27.00	24.50
Spain	12.53	12.62	11.64	11.34	11.02	10.80	10.61	10.83	10.55	n.a.	n.a.
Sweden	12.15	11.70	11.45	13.10	13.65	13.70	13.77	16.13	16.57	14.95	14.61
Switzerland	3.00	3.50	4.50	5.00	5.75	5.25	4.88	4.88	5.13	4.63	4.38
United Kingdom	10.31	9.31	9.88	13.13	13.75	13.00	12.50	12.38	12.31	11.06	11.31
Australia	10.20	10.40	12.75	13.78	13.82	14.95	15.55	14.93	15.40	14.85	n.a.
Japan	7.00	6.50	6.38	6.42	6.50	6.36	6.36	6.36	6.30	6.35	6.41
New Zealand	16.50	11.50	15.25	17.00	18.75	20.00	23.00	23.50	23.00	24.50	n.a.
South Africa	15.25	20.13	22.88	24.13	23.75	23.63	22.25	20.25	18.00	18.50	17.25
Argentina*	8.50	14.50	31.23	23.42	23.01	25.89	29.59	32.88	7.00	7.00	7.00
Brazil	21.00	23.00	27.00	26.00	25.50	26.50	25.50	25.00	24.00	23.00	n.a.
Chile	47.09	20.57	20.68	20.19	30.29	30.00	38.61	32.85	28.80	29.20	n.a.
Hong Kong	7.50	9.00	7.00	5.50	5.50	5.00	4.50	4.00	3.50	3.00	3.25
Korea	7.60	7.60	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Malaysia	6.40	7.75	9.58	9.50	9.50	9.66	9.42	9.67	8.17	8.17	8.17
Mexico	52.54	57.15	47.45	47.45	47.45	51.89	54.50	55.90	59.50	64.35	n.a.
Philippines	14.10	14.96	31.01	27.07	24.36	22.12	23.88	21.40	25.95	n.a.	n.a.
Singapore	8.25	7.44	6.13	5.44	6.01	5.82	5.01	4.88	5.07	4.88	4.51
Taiwan	7.50	7.00	6.50	6.50	6.50	6.25	6.25	6.25	6.00	6.00	6.00
Thailand	10.00	10.00	13.00	13.00	13.00	13.00	16.00	n.a.	13.00	10.50	10.00
Venezuela	15.50	12.00	12.50	12.00	13.00	11.50	11.50	10.00	10.00	n.a.	9.50

*Percent per month.

Domestic government bond yields

long-term issues, at or near end of month

	1982	1983	1984	1985							
	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
United States	10.61	12.00	11.61	11.28	12.09	11.92	11.64	10.71	10.62	10.91	10.63
Canada	11.69	12.02	11.66	11.38	12.30	11.93	11.50	10.76	10.88	10.91	10.79
Austria	8.81	8.02	8.04	8.00	8.00	8.06	8.06	8.01	7.87	7.77	7.58
Belgium	12.66	11.89	11.56	11.56	11.58	11.50	11.49	10.78	10.34	11.00	n.a.
Denmark	20.14	12.96	14.60	13.66	13.74	13.33	12.67	12.26	12.16	10.76	n.a.
Finland	10.64	11.16	10.73	10.84	10.91	10.39	10.34	10.45	10.46	10.48	10.42
France	15.40	13.96	12.70	12.12	12.25	12.27	11.98	11.72	12.12	11.87	n.a.
Germany	7.90	8.38	7.17	7.35	7.71	7.44	7.30	7.10	7.02	6.88	6.52
Ireland	14.54	14.25	14.90	14.57	14.74	13.55	13.08	13.17	12.71	11.20	n.a.
Italy	19.70	17.69	14.52	13.22	13.25	13.48	13.53	13.85	13.87	n.a.	n.a.
Netherlands	8.16	8.58	7.72	7.42	7.93	8.06	7.73	7.58	7.39	7.23	6.92
Norway	13.32	12.50	12.00	12.50	12.00	12.38	12.38	12.38	12.70	12.70	12.70
Portugal	16.63	22.11	22.23	20.34	20.69	20.21	20.84	21.82	22.23	n.a.	n.a.
Spain	15.92	17.25	13.93	13.29	13.44	13.49	13.41	13.56	n.a.	n.a.	n.a.
Sweden	13.01	12.30	12.04	12.39	13.23	12.93	13.42	13.70	13.48	12.98	13.22
Switzerland	4.23	4.53	4.60	4.68	4.86	4.89	4.75	4.74	4.78	4.80	4.77
United Kingdom	10.62	9.94	10.25	10.65	10.56	10.34	10.42	10.51	10.45	10.16	10.22
Australia	13.00	13.65	13.40	13.12	13.70	13.85	14.05	13.70	13.50	13.50	n.a.
Japan	7.96	7.45	6.36	6.37	7.19	6.97	6.85	6.60	6.53	6.38	6.46
New Zealand	12.84	10.50	16.90	17.09	17.35	17.50	17.95	19.64	17.33	17.86	n.a.
South Africa	11.31	13.64	16.55	17.25	17.85	16.85	16.40	15.85	15.15	15.90	16.20
Philippines	13.64	14.47	18.54	21.15	24.20	13.69	12.75	n.a.	17.00	n.a.	n.a.
Venezuela	15.00	13.50	14.00	13.00	13.50	13.00	12.50	12.50	12.50	12.00	12.00

Commercial bank lending rates to prime borrowers

at or near end of month

	1982	1983	1984	1985							
	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
United States	11.50	11.00	10.75	10.50	10.50	10.50	10.50	10.00	9.50	9.50	9.50
Canada	12.50	11.00	11.25	11.00	11.50	11.75	10.75	10.50	10.50	10.50	10.25
Austria	11.75	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25
Belgium	15.50	13.75	14.00	14.00	14.00	14.00	13.50	12.50	12.00	12.00	12.50
Denmark	14.00	10.00	10.50	10.50	10.50	11.00	10.50	10.50	10.50	9.50	n.a.
Finland	8.95	10.18	10.68	10.69	10.30	10.36	10.38	10.37	10.37	10.40	n.a.
France	12.25	12.25	12.00	11.50	11.50	11.50	11.50	11.25	11.25	10.85	10.85
Germany	8.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.25
Ireland	16.50	13.75	15.75	15.75	15.75	15.75	14.50	14.50	14.00	13.25	n.a.
Italy	20.75	18.75	18.00	17.00	17.00	17.00	17.00	17.00	17.00	17.00	17.00
Netherlands	6.25	7.00	6.25	6.75	7.75	7.50	7.13	7.75	7.75	7.25	6.25
Norway	14.50	13.50	13.00	11.50	12.88	12.50	12.50	12.90	12.70	12.90	13.10
Portugal	23.50	30.00	29.00	29.00	29.00	29.00	29.00	29.00	29.00	29.00	26.00
Spain	19.00	20.85	13.68	13.73	13.71	13.57	13.75	13.76	14.55	n.a.	n.a.
Sweden	15.00	13.50	14.50	14.50	14.50	14.50	14.50	16.25	16.25	15.25	15.25
Switzerland	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
United Kingdom	10.00	9.00	9.50	12.00	14.00	13.00	12.50	12.50	12.50	11.50	11.50
Australia	15.00	12.75	13.50	14.25	14.75	16.00	16.50	16.75	17.75	17.50	17.75
Japan	6.28	5.89	5.70	5.70	5.70	5.70	5.70	5.69	5.70	5.69	5.78
New Zealand	13.00	11.00	14.00	14.00	15.00	17.00	n.a.	25.00	25.00	24.00	n.a.
South Africa	18.00	20.00	24.00	25.00	25.00	25.00	25.00	23.00	22.00	21.00	21.00
Argentina*	9.00	15.50	32.05	24.25	23.84	26.71	32.47	37.81	8.50	8.50	9.00
Brazil	23.81	24.00	31.00	30.00	29.50	30.50	26.00	25.50	25.00	24.56	n.a.
Chile	64.11	30.90	60.82	47.30	47.54	51.00	51.16	46.15	47.28	51.47	n.a.
Hong Kong	10.50	13.50	11.00	10.00	10.00	9.50	9.00	8.50	8.00	6.00	7.00
Indonesia	22.00	19.75	23.50	22.50	22.50	23.50	23.00	22.00	21.50	20.75	20.25
Korea	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Malaysia	12.50	11.00	12.00	12.00	12.00	12.00	12.00	12.00	11.00	11.00	11.00
Mexico	46.12	56.44	47.54	47.17	47.33	49.36	51.93	53.76	54.92	57.00	n.a.
Philippines	18.00	18.00	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Singapore	9.33	8.98	9.40	9.08	9.03	9.03	8.73	8.48	8.28	8.03	7.28
Taiwan	10.75	10.25	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Thailand	16.00	16.00	16.50	16.50	16.50	17.00	17.00	16.50	16.50	16.50	15.50
Venezuela	17.00	16.00	16.00	15.00	15.00	15.00	15.00	14.00	14.00	n.a.	13.50

*Percent per month.

Domestic corporate bond yields

long-term issues, at or near end of month

	1982	1983	1984	1985							
	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
United States	11.75	12.63	12.25	12.00	13.00	12.50	12.38	11.25	11.25	11.65	11.38
Canada	12.74	12.89	12.42	12.08	12.95	12.46	12.24	11.34	11.27	11.62	n.a.
France	15.86	14.35	12.94	12.44	12.66	12.54	12.40	12.20	12.19	12.06	n.a.
Germany	8.20	8.30	7.20	7.20	7.20	7.30	7.30	7.20	7.10	7.10	6.90
Netherlands	7.80	8.51	7.51	7.33	8.00	8.22	7.87	7.62	7.41	7.28	7.09
Norway	14.13	13.25	12.75	12.75	12.75	13.25	13.25	13.25	13.50	13.50	13.50
Spain	17.10	19.84	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Sweden	13.37	12.21	12.33	12.34	12.67	13.31	13.19	13.80	13.75	13.25	13.25
Switzerland	5.80	4.92	5.09	5.06	5.16	5.24	5.14	5.18	5.15	5.09	5.06
United Kingdom	12.34	11.57	11.64	12.06	11.98	11.55	11.56	11.61	11.54	11.22	11.22
Japan	7.55	7.09	6.21	6.46	6.98	6.93	6.82	6.70	6.63	6.55	n.a.
Korea	16.00	14.20	15.00	14.70	14.70	14.70	14.60	14.70	14.30	14.00	13.90
Venezuela	18.00	18.00	18.00	18.00	18.00	18.00	17.00	17.00	17.00	n.a.	n.a.

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